

THE WORLD AHEAD 2026

Geopolitical drift *Opportunities for China* • After Gaza *Outlook for the Middle East*
Beyond Ukraine *Russia's next moves* • The global economy *Is a crisis brewing?*
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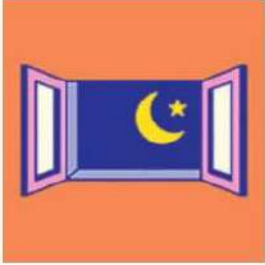
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The
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The World Ahead 2026

From the editor

THIS IS DONALD TRUMP'S world—we're all just living in it. The disruptor-in-chief was the biggest factor shaping global affairs in 2025, and that will be the case for as long as he remains in the White House. His norm-shattering approach has caused turmoil in some areas (as in trade) but has also delivered diplomatic results (as in Gaza) and forced necessary change (as with European defence spending). As the Trumpnado spins on in 2026, here are ten trends and themes to watch in the coming year.

1. America's 250th.

Expect to hear wildly diverging accounts of America's past, present and future, as Republicans and Democrats describe the same country in irreconcilably different terms to mark the 250th anniversary of its founding. Voters will then give their verdict on America's future in the midterm elections in November. But even if the Democrats take the House, Mr Trump's rule by bullying, tariffs and executive orders will go on.

2. Geopolitical drift.

Foreign-policy analysts are divided: is the world in a new cold war, between blocs led by America and China, or will a Trumpian deal divide the planet into American, Russian and Chinese "spheres of influence", in which each can do as they please? Don't count on either. Mr Trump prefers a transactional approach based on instinct, not grand geopolitical paradigms. The old global rules-based order will drift and decay further. But "coalitions of the willing" will strike new deals in areas such as defence, trade and climate.

3. War or peace? Yes.

With luck, the fragile peace in Gaza will hold. But conflicts will grind on in Ukraine, Sudan and Myanmar. Russia and China will test America's commitment to its allies with



"grey zone" provocations in northern Europe and the South China Sea. As the line between war and peace becomes ever more blurred, tensions will rise in the Arctic, in orbit, on the sea floor and in cyberspace.

4. Problems for Europe.

All this poses a particular test for Europe. It must increase defence spending, keep America on side, boost economic growth and deal with huge deficits, even though austerity risks stoking support for hard-right parties. It also wants to remain a leading advocate for free trade and greenery. It cannot do all of these at once. A splurge on defence spending may lift growth, but only slightly.

With rich countries living beyond their means, the risk of a bond-market crisis is growing

5. China's opportunity.

China has its own problems, with deflation, slowing growth and an industrial glut, but Mr Trump's "America First" policy opens up new opportunities for China to boost its global influence. It will present itself as a more reliable partner, particularly in the global south, where it is striking a string of trade agreements. It is happy to do tactical deals with Mr Trump on soyabeans or chips. The trick will be to keep relations with America transactional, not confrontational.

6. Economic worries.

So far America's economy is proving more resilient than many expected to Mr Trump's tariffs, but they will dampen global growth. And with rich countries living beyond their means, the risk of a bond-market crisis is growing. Much will depend on the replacement of Jerome Powell as chair of the Federal Reserve in May;

politicising the Fed could trigger a market showdown.

7. Concerns over AI.

Rampant spending on infrastructure for artificial intelligence may also be concealing economic weakness in America. Will the bubble burst? As with railways, electricity and the internet, a crash would not mean that the technology does not have real value. But it could have wide economic impact. Either way, concern about AI's impact on jobs, particularly those of graduates, will deepen.

8. A mixed climate picture.

Limiting warming to 1.5°C is off the table, and Mr Trump hates renewables. But global emissions have probably peaked, clean tech is booming across the global south and firms will meet or exceed their climate targets—but will keep quiet about it to avoid Mr Trump's ire. Geothermal energy is worth watching.

9. Sporting values.

Sport can always be relied upon to provide a break from politics, right? Well, maybe not in 2026. The football World Cup is being jointly hosted by America, Canada and Mexico, whose relations are strained. Fans may stay away. But the Enhanced Games, in Las Vegas, may be even more controversial: athletes can use performance-enhancing drugs. Is it cheating—or just different?

10. Ozempic, but better.

Better, cheaper GLP-1 weight-loss drugs are coming, and in pill form, too. That will expand access. But is taking them cheating? GLP-1s extend the debate about the ethics of performance-enhancing drugs to a far wider group than athletes or bodybuilders. Few people compete in the Olympics. But anyone can take part in the Ozempic games.

Wherever you stand on performance-enhancing drugs, I hope you will find *The World Ahead 2026* to be a valuable and effective supplement to your media diet, boosting clarity and foresight. ●

Tom Standage
Editor, *The World Ahead 2026*

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Leaders

A new world starts to emerge

By the end of 2026, the contours of 21st-century geopolitics will be much clearer



IN GLOBAL POLITICS 2025 was the year when an old order ended. President Donald Trump demolished decades-old norms and institutions as dramatically as he set about reshaping the White House. His tariffs bludgeoned the multilateral trade system. The machinery of international diplomacy, from the UN to foreign aid, was hit by American funding cuts. Long-standing security alliances were refashioned into more transactional relationships which monetised American military and economic heft. At home, Mr Trump unleashed the most expansive assertion of executive power in a century. Soldiers were sent into Democrat-run cities; universities brought to heel with threats and funding cuts; the independence of the Federal Reserve attacked; and the machinery of government deployed against the president's foes.

The dizzying pace and scale of these actions made it hard to tell what they added up to. Was this much-needed disruption to a sclerotic system, or an assault on basic pillars of America's democracy? Was the transactional dealmaking an innovative new way to get things done, or the triumph of mafioso tactics over long-term strategic wisdom? There was alarm, including from *The Economist*, about the threats from protectionism, corruption, the politicisation of independent institutions and, as the year went on, a growing unease that team Trump does not feel bound by the law.

True, the president's "Sopranos"-style leadership brought real successes. The most obvious was the ceasefire in Gaza. It created the potential for a new beginning and vindicated his much-derided New-York-real-estate style of diplomacy. Getting tough with NATO allies led to increases in defence budgets that few would have thought possible a year ago. And in

spats between smaller countries, a president craving a Nobel peace prize, willing to threaten tariffs and twist arms, helped solve, or at least paper over, disputes.

But there were also clear failures. Strategically, the imposition of punitive tariffs on India (ostensibly as punishment for buying oil from Russia) and Brazil (for putting Jair Bolsonaro on trial) made little sense. Both decisions will push those countries closer to China. Mr Trump made little headway with Vladimir Putin. And he was outmanoeuvred by Xi Jinping. China was the clear winner from 2025's trade brinkmanship.

Fortunately, tariffs did not sink the global economy. Six months after "Liberation Day", the revenue raised by tariffs suggests an effective average American rate of just over 10%—much lower than expected back in April. Retaliation was limited and a 1930s-style trade war avoided. Instead, countries cut deals and importers took much of the hit from tariffs. Meanwhile team Trump's energetic slashing of the regulatory state, enthusiasm for crypto assets and hell-for-leather determination that America should win the race for artificial intelligence fuelled a remarkable stockmarket boom, which boosted a strikingly resilient economy.

That boom, coupled with a fear of retribution, shaped a uniform narrative among business leaders. Wherever the world was heading, went the collective view, America's economy would thrive. Few were willing to voice concern, and certainly not in public.

With the old order in ruins, the contours of the new world will become much clearer in 2026—in three main areas. First, the future of Western liberal democracies. The midterm elections in November will determine whether America is at serious risk of quasi-authoritarianism. If Democrats win control of the House of Representatives, there will be a meaningful check on the Trump administration. If history is a guide, they should win. But these are not normal times. The Democrats are even less popular than Mr Trump. And there is a credible risk the administration could try to interfere with America's election machinery.

On the other side of the Atlantic, 2026 will show whether MAGA-style populist nationalists are on the cusp of power in Europe's biggest economies. In Britain, where Nigel Farage's Reform UK party leads in the polls, local-government elections will reveal whether that lead translates into votes—and thus, when a general election is next called, the chances of a prime minister Farage. In France, recent history suggests another government collapse is all too likely in 2026. That would force parliamentary elections and probably

The contours of the new world will become much clearer in 2026—in three main areas



▶ lead to Jordan Bardella as France's first prime minister from the populist right. In Germany it will become apparent whether the "firewall" against the hard-right Alternative for Germany can hold.

The second area of clarity will be in geopolitics. In 2026 Trumpian transactionalism will evolve into a curious hybrid of erratic peacemaking around the world, muscular interventionism in America's backyard and opportunistic dealmaking around critical supply chains. Mr Trump's desire for a Nobel peace prize will keep him engaged in the Middle East. He will prevent Israel from returning to full-blown war in Gaza and will push for a pardon for Binyamin Netanyahu, and perhaps a graceful political exit. Mr Trump may also play peacemaker elsewhere, particularly where rare-earth deals can be extracted. But faced with intransigence from Mr Putin, America will leave Ukraine's future to Europe—which, absorbed by the populist right's rise, may fail to step up to that responsibility.

The clearest signals of where American foreign policy is heading will come from Asia and Latin America. In Asia, prepare for Mr Trump's desire to do business with China to lead to a dangerous erosion of support for Taiwan. America's strategic ambiguity may give way to studied nonchalance, especially if a weakening American economy makes it more important for Mr Trump to strike a big trade deal with China.

The western hemisphere, in contrast, will see heavy-handed use of American power, combining support for ideological fellow-travellers (Javier Milei in Argentina and Nayib Bukele in El Salvador) with unashamed bullying of ideological foes. Expect attempts

The clearest signals of where American foreign policy is heading will come from Asia and Latin America

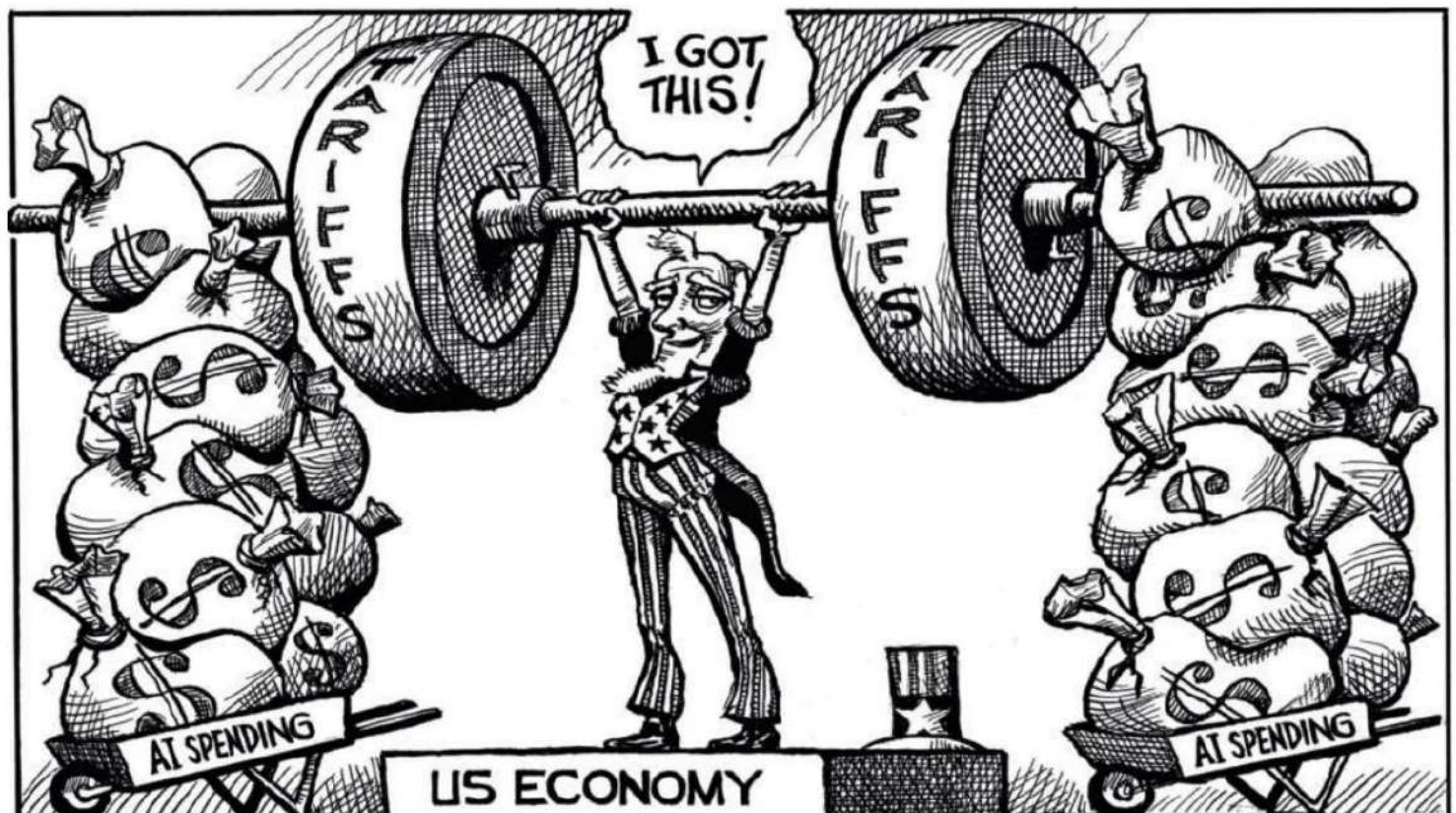
at regime-change in Venezuela and efforts to sway elections, for instance in Colombia. Belligerence in Latin America will be a useful prop for a president keen to look tough on immigration, crime and drugs.

The third area of clarity, for good or ill, will be on the economy. Whether or not there is a severe market correction, surging share prices will not underpin confidence as they did in 2025. Nor will the productivity-transforming impact of artificial intelligence appear as quickly as boosters hope. Damage from tariffs will become more evident, pressure on consumers more burdensome and the unsustainability of America's budget deficits more obvious. Mr Trump's choice for the next chair of the Federal Reserve will show whether central-bank independence is over or not. Given the mess other rich countries are in, a stampede from the dollar is unlikely. But by the end of 2026 America's economy may not seem quite so exceptional.

Paradoxically, that might be a good outcome. A weaker economy would raise the Democrats' chances of retaking the House and restoring some checks in America's democracy. Nervous financial markets might also deter White House revolutionaries from their most egregious constitutional shenanigans. And a weaker economy might even encourage greater pragmatism from Mr Trump himself. Maybe it is time for a brave businessman or two to say publicly that for America's long-term health, some short-term bumps in the road would be no bad thing. ●

Zanny Minton Beddoes Editor-in-chief, *The Economist*

KAL Drawing on 2026



An optimistic scenario for America

Gloom about its future is almost as old as the republic itself, says John Prideaux. Here is an alternative



AS THEY GREW old, America's Founding Fathers also grew gloomy. In "Fears of a Setting Sun", Dennis Rasmussen, a historian at Syracuse University, describes how Washington, Jefferson and Hamilton wondered if the American experiment would outlast their lifetimes. This was not the narcissism of great men unwilling to understand that even immortals can be dispensable. Or, rather, it was not only that. However refined the structure of government they had bequeathed the new republic, the success of the whole enterprise relied on things beyond their control. America was vulnerable to invasion; the slavery question had been postponed; the record of democratic republics was not good.

Doomerism about the republic is almost as old as the Declaration of Independence, which turns 250 in July. It is easy to imagine a scenario where some of the founders' nightmares finally become reality in 2026. In the declaration, Jefferson charged King George III with sending "swarms of officers" to harass citizens, cutting off trade with the world and preventing immigration, among other calumnies. In 2026 the charge-sheet against Donald Trump could include using the power of the state to persecute his political enemies; using the office of president for personal gain; and threatening to vandalise the constitution by running for another term.

Back in 1775 it would have required imagination, mania even, to suggest that the soon-to-be independent country would grow into the greatest economic and military power the world has ever seen, abolish slavery, rescue the former colonial power in two world wars and then get so bored, exhausted, complacent or despondent that it would elect a reality-TV star to Washington's old job, twice. Far less imagination is needed to outline a scenario where things go surprisingly well in 2026. So, at the risk of personal and professional humiliation (which somehow seem not to adhere to prophecies of doom), here goes:

The founders worried about home-grown tyranny from one of Washington's successors. They also feared disorder and invasion. Their solution was to constrain the president, but with exceptions to those constraints

for use in an emergency. Unlike any president before him, Mr Trump has made every day an emergency and governed accordingly. So imagine that, in 2026, the courts put some guard-rails around the president's ability to decide when he gets to break the glass and grab an axe. One ruling declares that the president cannot deploy the National Guard of one state in another, or limits the guard's duties (outside Washington) to policing federal property. Another ruling constrains Immigration and Customs Enforcement, which the president seems to consider his personal militia. By the end of 2026, the presidency looks much less imperial than it seems now.

Having successfully closed the southern border to irregular migration in his first year, the president moves to phase two of the MAGA migration policy. Mr Trump has sometimes talked enthusiastically about high-skilled migration, even as his government has made it harder. In his first term he increased the number of agricultural workers who could come to America on seasonal visas. Having now fixed a seemingly impossible problem, he brokers a bipartisan deal on immigration that pairs changes to asylum law with increased high-skilled migration and more visas for guest workers. This annoys immigration restrictionists in the MAGA movement. But most Republicans in Congress, and plenty of centrist Democrats who wish to defuse an issue on which they keep losing, support the president. The bill passes. Stephen Miller, the deputy chief-of-staff, is sad.

As the artificial-intelligence boom continues, the administration cuts financial regulation and makes permitting easier for new energy projects and transmission lines. Generating capacity from solar energy increases. Even wind power, which the president has a thing about, benefits from higher investment and expanded capacity. Signs of an AI-driven productivity boost become discernible, vindicating the administration's hands-off approach to regulation. The white-collar jobs apocalypse is postponed. In other good economic news, tariffs settle at a rate that is higher than before the president came to office, but some predictability returns. The Supreme Court helps here, too, by returning some power over tariffs to Congress.

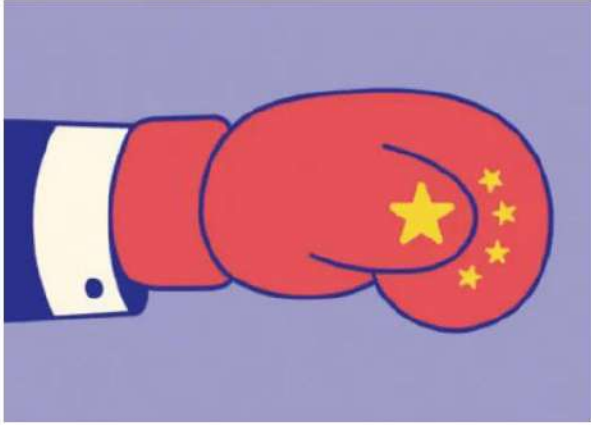
Buoyed by all of this, Republicans win a majority in the House of Representatives in the midterms. Mid-cycle gerrymandering helps, but so do the president's political achievements. The war in Gaza does not resume. Europeans take on the burden of defending Ukraine. America and China sustain their truce in the trade war. Mr Trump has the success and adulation he has always wanted, even from some of his political foes, and feels that his work is done. The Republican presidential primary starts—and he chooses to stay out of it. Implausible? America's history has been filled with much stranger things. ●

Imagine that, in 2026, the courts put some guard-rails around the president's emergency powers

John Prideaux US editor, *The Economist*

China's year of hubris

Xi Jinping should resist the urge to switch from defence to offence, suggests Patrick Foulis



AFTER A SUCCESSFUL 2025, Xi Jinping and China's leadership face a year of temptation in 2026. So far they have played their cards well in the Trump era, insulating China's economy from the trade war, retaliating deftly and otherwise standing back to let the dismantling of the American-led world order proceed apace under the White House's direction. But hubris haunts the Communist Party and in 2026 Mr Xi will be tempted to assert China's interests more aggressively. That creates a risk of dangerous overreach in three areas: trade, Taiwan and new Chinese-run global rules.

No-one expected the first year of a Trump administration to be easy, but for China it went well enough. The economy grew by about 5%, despite tariffs and a painful property-sector adjustment. While consumers were subdued, private-sector risk-appetite soared. By November 2025 the MSCI China index of shares had beaten the S&P 500 in dollar terms and China had raised more capital in initial public offerings than Wall Street. So much for China being "uninvestible".

The trade war has vindicated Mr Xi's decade-long campaign to eliminate foreign choke-holds on China and boost its self-sufficiency. Indigenous chipmakers and artificial-intelligence firms boomed in 2025, and the share of Chinese trade invoiced in yuan (not dollars) rose to an impressive 30%. China's oil stockpile reached a record 1.2bn barrels. In his first meeting with Donald Trump for six years, in October 2025, Mr Xi offered MAGA-pleasing deals on fentanyl and soybeans while making no compromises on his vision for state-led global techno-industrial supremacy. China's new five-year plan, released in March 2026, will double down on this goal.

It is easy to be beguiled by China's adroit statecraft. Yet the Xi era has featured many episodes of hubris. The "wolf warrior" phase of coercive diplomacy backfired. His "common prosperity" drive against crony capitalism crushed entrepreneurs. The "zero covid" policy went on too long. It is unclear why this happens but the suspicion is that, in an autocratic system, cowed officials don't object to Mr Xi's bad or woolly ideas. Instead, they implement them overzealously.

This inbuilt tendency to overreach could flare up in

several ways in 2026. The first is if Mr Xi takes his techno-industrial crusade too far. As he diverted trade from America, China's exports to the rest of the world surged by 11%, year on year, in the first nine months of 2025. By late 2025 Germany's annualised trade deficit with China was approaching \$100bn. BYD, a Chinese car champion, plans to have 2,000 stores in Europe by late 2026. If China swamps the world with even more exports it will trigger a panic over de-industrialisation in the West—and more tariffs on its goods.

The second area of hubris in 2026 could be Taiwan. American spies believe Mr Xi has told the People's Liberation Army to be capable of invading the self-governing island by 2027. That is when the Communist Party's next five-yearly Congress takes place and the question of succession will loom large. Some of Mr Xi's advisors may argue that in 2026 the conditions for an aggressive grey-zone campaign against Taiwan, such as a customs-inspections regime that falls short of an embargo, will be better than at any point in living memory. Mr Trump is ambivalent about defending the island, the threat of punitive American tariffs is a busted flush, Taiwan's voters are polarised and China has the support of some 70 countries for reunification by "all" means. A stoking of tensions, always dangerous, could have especially unpredictable effects in the Trump era by triggering a regional arms race by American allies afraid of abandonment.

Even as he weighs trade and Taiwan, Mr Xi may be tempted to propose more Chinese-led global rules to replace the decaying Western ones. By late 2025 there were signs of this third kind of hubris. China launched a "Global Governance Initiative" to create new rules on finance, AI, climate and space, and proposed a worldwide compulsory-licensing scheme for rare earths used in high-tech manufacturing. It is true that this extraterritorial projection of power mimics America's approach, but it will still be unpopular in 2026, especially in democracies that fear dependency on China, with its autocratic government.

If Mr Xi is wise he will resist these temptations. He will temper excess industrial capacity inside China to slow the export surge and dial up domestic demand; wait and see if Taiwan's position weakens further; and show the world that China provides global infrastructure such as payments, clean tech, AI and cloud computing without coercing customers. The reason is not that China necessarily believes in caution, but because Mr Trump is likely to do a more effective job than China of further dismantling the Western-led trade and security system. By November 2026 it will be ten years since the two men first spoke. Back then Mr Xi said they agreed to "win-win co-operation, with differences controlled in a constructive manner". It has not turned out like that. But if China can resist temptation, it will end 2026 having compounded its advantage. ●

Mr Trump is likely to do a more effective job than China of further dismantling the American-led world order

Patrick Foulis Foreign editor, *The Economist*

Russia's reckoning

Fighting will grind on because Vladimir Putin has no plan for winning in Ukraine, argues Edward Carr



ON JUNE 10TH 2026 the fighting between Russia and Ukraine will have lasted longer than the first world war. That conflict, too, was supposed to have been over in a few weeks. As in Ukraine, fighting became bogged down and the high command squandered men's lives in one doomed assault after another. In August 1918 the allies used new tactics to break the German lines. Today, by contrast, Ukraine will not surrender and Russia does not know how to win.

Even in a dictatorship, a leader who has no theory of victory is storing up trouble. As Tsar Nicholas II learnt to his cost in the first world war, sooner or later there will be a reckoning. The more that Mr Putin throws away Russian lives pointlessly today, the greater the crisis he will face tomorrow.

The root of Mr Putin's problem is he has been unable to defeat Ukraine on the battlefield. The offensive in summer 2025—his third and most ambitious—has been an abject failure. Russia's tactic is to send small groups of men into the killzone. Yet, if some break through, the rest cannot take advantage of their progress. As soon as they mass, they are obliterated.

The numbers tell this terrible story. In the year to mid-October, Russian casualties grew by almost 60%, to somewhere between 984,000 and 1,438,000. The dead now number between 190,000 and 480,000. Perhaps five Russian soldiers are dying for every Ukrainian. And yet over the summer Mr Putin's armies failed to take a single large city. Russia is advancing, but to occupy the four oblasts it claims as its own would require five more years. If the killing continues at 2025's rate, total Russian casualties will reach almost 4m.

That lack of progress explains why Mr Putin is also striking Ukrainian cities and infrastructure. He hopes to make parts of Ukraine uninhabitable and to destroy morale. Russia has started talking about the devastating winter that lies ahead. Nobody should trivialise Ukrainian suffering, but attacking civilians rarely causes a country to collapse. People already know that Russia is merciless. Every missile that strikes a civilian target only underlines how much they have to lose should Mr Putin prevail.

In contrast, Ukraine's deep strikes inside Russia

may change some minds. Polling suggests that 70% of Russians say they support the war. Perhaps only one in five of these people is a fervent believer. The rest take the easier path of refusing to think about what is happening. But by hitting oil infrastructure and airports as the economy slows and budgets tighten, Ukraine may be able to jog Russians into confronting reality.

Mr Putin also had hopes that America's president, Donald Trump, would tip the balance in his favour. By withdrawing vital American support—in particular, on intelligence and for air-defence—Mr Trump could indeed impose a bad peace on Ukraine. Early in 2025, he briefly tried to do so.

Yet those tactics no longer look likely. The peace-maker in the White House continues to blow hot and cold with Ukraine's president, Volodymyr Zelensky, whom he dislikes. But Europe is now paying Ukraine's bills, neutralising MAGA's main gripe that America was being exploited. And Mr Trump seems to have concluded that throwing Ukraine to the bears would ruin his aspiration to become a Nobel prize-winning statesman. In October he even imposed sanctions on Lukoil and Rosneft, two Russian oil companies.

Lastly, Mr Putin may hope European resolve will crumble. The money Ukraine needs to keep on fighting will run out in February. The prospect of populist governments that are less hostile to the Kremlin already hangs over the continent. A divided and dysfunctional Europe will struggle to give Ukraine the long-term backing it needs to thrive once the fighting stops.

But that is not the same as abandoning Ukraine in the heat of battle. The case that Ukraine is the key to European security is iron-clad. If Kyiv falls, Mr Putin will have control over Europe's biggest army and a formidable arms industry. Work is afoot to set up a credible multi-year financing mechanism that goes beyond seizing Russian assets. If it succeeds, Mr Putin will know that Ukraine's economy can outlast Russia's.

Some people think the Russian president must believe time is on his side, or he would have already sued for peace. Yet the lesson of Vietnam, Afghanistan and Iraq is that leaders cling on in the hope that something—anything—will turn up. So the chances are that Mr Putin will continue to fight in 2026, waiting for his generals to find a new way of waging war, for Ukraine to run out of men, for Mr Zelensky's government to collapse, or for Mr Trump or Europe to lose patience.

But if none of these things happen, Mr Putin will be storing up a terrible reckoning. Russia has mortgaged its economy, harried Finland and Sweden into joining NATO, subordinated itself to China and scythed through a generation of young men. And for what? The moment this question forms on Russian lips, the world will face a new danger. Mr Putin could accept defeat abroad and impose terror at home. Or he could escalate. ●

The more Russian lives Mr Putin throws away pointlessly today, the greater the crisis he will face tomorrow

Edward Carr Deputy editor, *The Economist*

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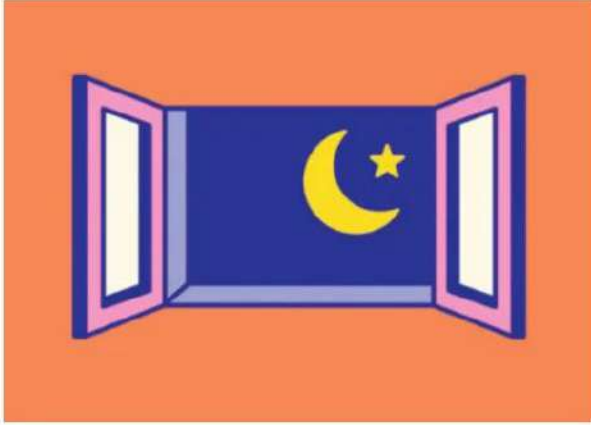
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After Gaza

What is the outlook for the Middle East? Josie Delap offers three scenarios for the coming year



MIDDLE-EAST HANDS tend to assume that they cannot go far wrong in their predictions by being pessimists. The past two years have done much to vindicate that view. But lately there has been cause for hope. Donald Trump's peace plan has brought some relief to Gaza. America's and Israel's strikes on Iran did not lead to a regional conflagration. Syria has not descended into all-out sectarian warfare.

Imagine, then, the best scenario for building on these achievements: a world in which those striving for a more peaceful Middle East prevail. It starts in Gaza. The shaky peace there holds, and Mr Trump remains invested in his plan; reassured by this, Arab and Muslim states commit peacekeeping troops, and the International Stabilisation Force (ISF) is set up. The Islamists disarm because it is the only way to facilitate Gaza's reconstruction. Bankrolled by the Gulf states, rebuilding starts. Mahmoud Abbas, the Palestinian president, is replaced by Marwan Barghouti, who begins the long-promised reform of the Palestinian Authority; Israel lets it take responsibility for Gaza.

Meanwhile, in Israel, the opposition unites against Binyamin Netanyahu's coalition and the elections deliver a broad, moderate government. Divided, Israel's far-right religious nationalists fail to make it into the Knesset. The new government signs non-aggression pacts with Syria and Lebanon and commits to a peace process with the Palestinians in order to make progress towards normalisation with Saudi Arabia.

Elsewhere, the changes in leadership continue with the death of Ayatollah Ali Khamenei, Iran's supreme leader. Hassan Rouhani, a reformist, succeeds him and sets in motion the modernisation of the Islamic Republic. He relaxes its religious strictures and releases political prisoners. Deciding that being a rogue nuclear state brings only humiliation and hardship, he agrees to shut down Iran's nuclear programme in exchange for full normalisation of ties with America. Mr Trump triumphantly accepts his Nobel peace prize.

Hope springs eternal. Yet optimists, including *The Economist*, have been proved wrong many times. So what if the pessimists are vindicated? Enthusiasm for peace has waned among crucial constituencies; only a

fifth of Israelis now support the creation of a Palestinian state. Around 45% of Palestinians favour it, but an overwhelming majority oppose Hamas's disarmament. Buoyed by this, Hamas refuses, in this scenario, to give up its weapons. It stays in control of Gaza and commits itself afresh to armed resistance. As a result, no one pledges troops to the ISF and by the spring Israel's government, still led by Mr Netanyahu, has convinced the American president that it has no choice but to resume its war in Gaza. Mr Trump, frustrated and bored by trying to negotiate the latter phases of his deal, acquiesces and turns his attention elsewhere. The resumption of fighting in Gaza prompts a wave of refugees to Egypt, which remilitarises the Sinai.

Mr Netanyahu takes advantage of Mr Trump's distraction to launch a second round of strikes on Iran, which this time fires missiles at Bahrain and the United Arab Emirates in response. The UAE, Bahrain and Morocco suspend ties with Israel and the Abraham accords collapse. Mr Khamenei is killed during this war and is replaced by a hardliner from the Islamic Revolutionary Guard Corps, who resolves to build a nuclear bomb in secret. Meanwhile, in Syria the Kurds and Druze attempt secession after another round of sectarian bloodletting. Citing the worsening regional security situation, Mr Netanyahu postpones elections. Still reliant on his far-right allies, he cracks down further on the West Bank, which erupts in a new *intifada*.

In fact, the most likely scenario is somewhere between these two extremes. In Gaza the war does not resume but reconstruction does not really get under way. The peacekeeping force does not materialise. Hamas attacks Israeli troops, and Israel retaliates with frequent strikes. Gaza's new technocratic government rules in name alone. Israel retains control of half of the strip and parts of Lebanon and Syria. A few refugees escape to Egypt, but most Gazans remain trapped.

Israel's elections result in another stalemate. Mr Netanyahu does not secure a majority but remains in office as a caretaker because the opposition fails to form a coalition. The minority government signs a non-aggression pact with Syria, but not Lebanon, and makes no progress on normalising relations with Saudi Arabia. Mr Khamenei oversees half-hearted nuclear talks with America which go nowhere. Israel tries to persuade Mr Trump to strike Iran again, hoping to topple the regime, but he refuses.

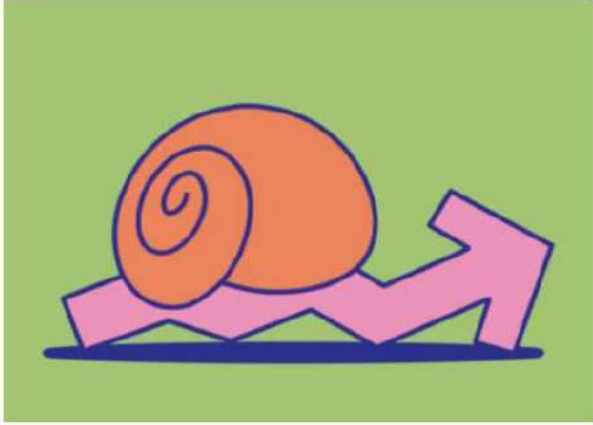
Not everything will go right in 2026. That much is certain. But the worst may not materialise either. There will be no room for blind optimism, but there should still be hope, because there will always be some who see a better future. "Don't forget those who want peace," begged Mahmoud Darwish, one of the great voices of Palestine. "Let it come like wildflowers, suddenly," pleaded Yehuda Amichai, one of Israel's finest poets, "because the field must have it: wildpeace". ●

There will be no room for blind optimism, but there should still be hope

Josie Delap Middle East editor, *The Economist*

Rolling with the punches

The world economy has withstood many blows. More will land in 2026, says Henry Curr



FOR YEARS the world economy has defied doom-sayers. When the coronavirus pandemic struck, many people expected a long slump; instead there was a fast and inflationary rebound. When central banks then raised interest rates to quell prices, a widely forecasted recession never came. And after President Donald Trump slapped “Liberation Day” tariffs on trading partners in April, markets tanked. Investors feared an enormous trade war and a deep crisis. But the tariffs were watered down and stockmarkets began an astonishing bull run. At the same time America’s real economy has grown at a rate that, though noticeably slower than before, is far from recessionary. Globally, too, growth has slowed but not stopped.

Will this resilience continue in 2026? The threats to growth are almost too many to count. The lesson of recent years is that they are less likely to cause a crash than some might fear. Yet they could still throw plenty more sand in the gears of the world economy.

For a start, Mr Trump’s trade war is far from over. At the time of writing the tariff rate on goods imported to America, calculated from customs revenue, was only 10.5% (versus a threatened 28% calculated by wonks at the height of April’s scare). But the worst tariffs on China, the sole country to have seriously retaliated against Mr Trump, are merely paused, whatever the recent conciliatory rhetoric of both sides. And although the Supreme Court is likely to curtail Mr Trump’s power to set tariffs at his total discretion, his administration is preparing every legal alternative in its arsenal to keep levies high. A shift from one legal mechanism to others would create upheaval and uncertainty.

One live danger from the tariffs is their impact on the Federal Reserve’s monetary policy. By the spring of 2026 tariffs will probably be boosting America’s underlying rate of annual inflation by about one percentage point. That could make the Fed reluctant to cut interest rates as much as markets hope. At least in 2022 and 2023 labour markets were booming as inflation surged. But because tariffs hurt, rather than help, economic growth, the Fed might have to put up with a softer-than-ideal labour market to keep a lid on prices.

The mirror-image of that danger is the risk that Mr

Trump bends the Fed to his will in 2026, casting doubt on the central bank’s long-term inflation-fighting credibility. Jerome Powell, the Fed’s chair, is due to step down in May. His departure could set off a succession drama at the central bank. His likeliest replacement is Chris Waller, a technocratic governor whom Mr Trump appointed in his first term. If Mr Trump chooses someone more partisan, expect Mr Powell to stay on as a Fed governor—a separate role for which his term does not expire until 2028—in an attempt to preserve the institution’s independence.

The threat that Mr Powell could hang around is probably helpful to Mr Waller’s chances. But the Supreme Court will also rule on Mr Trump’s attempt to remove Lisa Cook, another governor, for alleged improprieties in old mortgage applications. If the president is able to force out Ms Cook, his administration may try the trick on other governors, too—perhaps including Mr Powell, if he has not left the Fed’s board.

Threats to central-bank independence compound another of the world economy’s problems: the parlous state of government budgets. Deficit spending contributed to the world’s resilience after the pandemic. Yet the crisis took advanced-economy public debt higher than in any period since the aftermath of the Napoleonic wars. France has lost five prime ministers in two years as it wrestles with its budget; Britain’s government is set to levy its highest taxes since the 1950s, yet is still cash-strapped; and even after accounting for revenue from tariffs, America will probably run a deficit of around 6% of GDP in 2026.

It is an astonishing trajectory. And it brings with it the danger that governments lean on central banks to keep rates low to ease their debt burdens—a factor that Mr Trump has cited in his campaign against the Fed. The growing dangers posed by reckless fiscal policy and compromised monetary policy are raising the odds of a bond-market crisis, like that which Britain suffered in 2022. A steep bond sell-off in a major economy such as France or Japan could tighten global financial conditions; a bond-market crash in America would be a seismic event.

The last serious danger to the world economy is a collapse of stockmarket confidence. One explanation for this year’s resilience is that growth has been buttressed by the boom in artificial intelligence. With respect to America’s real economy, this argument is often overstated, because the vast majority of AI chips, for example, are imported. But the astonishing strength of stockmarkets, driven by faith in AI, is almost certainly making Americans feel wealthier, supporting their spending. If the boom fizzled out, the reverse would happen. Without the boom, there need not be a recession. But, plagued by tariffs, debt and a growth slowdown, there would not be much left to celebrate about the world economy. ●

Reckless fiscal policy and compromised monetary policy are raising the odds of a bond-market crisis

Henry Curr Economics editor, *The Economist*

Boom, bust or backlash?

The true impact of artificial intelligence will start to become clear in 2026, argues Rachana Shanbhogue



FOR THREE years the world has marvelled at ChatGPT's cleverness, and more recently, been mesmerised by the creativity of Sora, the chatbot's video-generating sibling. In the expectation that artificial intelligence will be transformative, large American tech firms poured over \$400bn into data centres and other necessary infrastructure during 2025; by one estimate, a staggering \$7trn will be spent by the end of the decade. Yet revenues from AI so far amount to a measly \$50bn a year, about an eighth of Apple or Alphabet's entire annual revenues. As the world gets used to the technological feats of AI, the focus is shifting. In 2026 expect its economic, financial and social consequences to grab attention.

Consider economics first. Some 800m people worldwide use ChatGPT; many employees admit in surveys to using AI at work. But when it comes to formal adoption by businesses, the numbers are still modest. According to America's Census Bureau just over 10% of businesses with more than 250 employees say they have embedded AI into their production processes. A survey by the Massachusetts Institute of Technology released in July found that 95% of businesses' AI pilots failed to generate a return at all.

As a consequence, venture capitalists, entrepreneurs and tech giants in Silicon Valley are all focused on one thing: how to speed up adoption by companies. There is a potential fortune to be made if businesses can integrate AI into their operations and boost productivity. Startups have cropped up to help businesses in particular industries, or with particular processes: Harvey AI, for instance, works with lawyers to parse reams of contracts, while Sierra helps companies use AI in customer service. Even OpenAI and Anthropic, the world's leading AI labs, are tailoring some of their services in order to help financiers or life-science researchers. A key indicator to watch in 2026 will therefore be the rate of formal adoption, and the extent to which these efforts are succeeding.

This matters not just for the impact of AI on productivity and economic growth, but also for the huge financial boom that is predicated on the technology's success. According to the Bank of England, the stocks

of companies that depend on AI made up 44% of the market capitalisation of America's S&P 500 in early October. The ratio of prices to forward earnings for this basket—a measure of stock valuations—is an eye-watering 31, compared with 19 for the overall index. If adoption picks up, then investors will continue to believe that their extravagance and patience will ultimately result in handsome returns. But any sign that the gains from AI will be slow to arrive, or will not come at all, could cause valuations to deflate.

History shows that even useful technologies, such as railways and the internet, have been accompanied by financial exuberance. A market correction in AI would have knock-on consequences for America's economy. Investment in data centres and the wealth effects from a roaring stockmarket have helped mask the impact of tariffs, lower migration and uncertainty. But if the AI boom falters, trillions of dollars in American households' wealth could be wiped away.

Faster uptake of the technology by companies would reassure investors, but risks raising a different concern: about AI's impact on jobs. To spur adoption, AI firms are pushing virtual "agents" that are capable of performing a series of tasks semi-autonomously, from start to finish—like human employees, but round the clock, and at lower cost. Packaging AI in this way, as a drop-in replacement for software programmers or customer-service agents, may be easier for managers to grasp. Artisan, a startup based in San Francisco, for instance, has run an ad campaign that calls on companies to "Stop Hiring Humans". But it is hard to think of a more effective way to fuel a backlash against AI as a job-stealing, worker-displacing menace.

Already, some commentators are blaming AI for high rates of graduate unemployment in America. The evidence for this is slim. Graduate unemployment may simply reflect employers' shifting demand for skills, or could be the result of trends that predate the launch of ChatGPT, such as overhiring by tech and professional-services firms during the pandemic. Some studies, including one by the Yale Budget Lab, conclude that AI has not had disruptive effects on the labour market, and find no evidence that AI-intensive industries have been laying off more workers than others.

Past technology booms suggest that worries about mass unemployment tend not to come to pass. Firms that adopt technology faster benefit from higher demand, leading them to hire more workers; as some jobs become obsolete, new ones crop up. But it is only natural that people worry about change. The hype and the hopes around AI have been like nothing the world has seen before, and the true nature of its impact is still unclear. Will it bring an economic revival, a financial bust or a social backlash, or some combination of the three? The world will start to find out in 2026. ●

A market correction in AI would have knock-on consequences for America's economy

Rachana Shanbhogue Business affairs editor, *The Economist*

WHERE RISK MEETS OPPORTUNITY

A professional golfer, Lydia Ko, is captured in the middle of a golf swing on a lush green course. She is wearing a dark blue long-sleeved shirt with the CME logo, dark blue pants, a black cap, and white sneakers. The background features a large sand trap, a line of trees, and the ocean under a clear blue sky with a hint of sunset.

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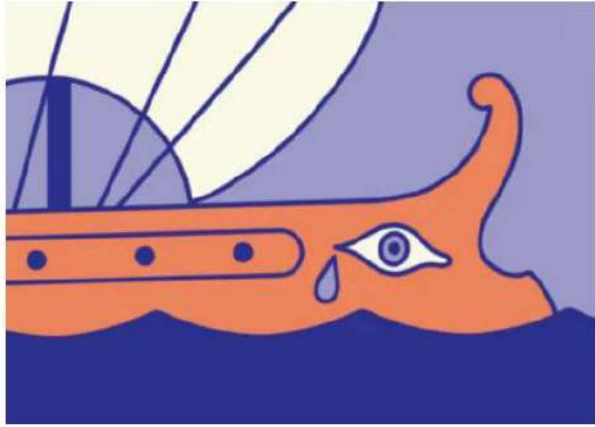
Lydia Ko
LPGA Hall of Fame Member
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Lessons for a storm-tossed world

“The Odyssey” offers advice to those navigating the ups and downs of 2026, says Catherine Nixey



HE IS BACK. In 2026, Odysseus the wanderer returns—though this time arriving in cinemas, rather than a ship—when Christopher Nolan’s version of Homer’s “The Odyssey” opens in July. The film promises everything you would expect from a Hollywood epic. There will be moody-looking panning shots. There will be moody-looking people saying things in short, manly sentences. There will be moody-looking people in short, not-so-manly Greek skirts. There will also, more surprisingly, be lessons for those navigating the ups and downs of 2026.

People remember “The Odyssey” as a story about sailing and sea monsters. This is nonsense: it is a parable for the modern age, a handy reminder of the timeless nature of many of the challenges the world faces today. Odysseus’s journey across the Mediterranean offers lessons on such things as war, mass migration and the importance of taking earplugs with you when you travel. At one point, a nearby group emits such loud music that the hero must be lashed to the mast of his ship, or plug his ears with wax, lest he lose his mind. Who has not felt the same on public transport?

Bronze-age Greece is, clearly, not the modern era. But there are parallels. Odysseus lives in a world transformed. Once-peaceful lands have been beset by war (in Troy), mass migration (from Troy) and scary new technology, such as Trojan horses (an early form of malware). Odysseus, says Daniel Mendelsohn, translator of a recent edition of his story, is a “post-” sort of hero: post-war, post-truth and living in a world where “the old certainties have died”. In short, he is the perfect storm-tossed hero for storm-tossed times.

That is not to say he is actually perfect. Far from it. Odysseus, who is now easily over 40, seems to be having something of a mid-life crisis. He receives skin-rejuvenation tweakments (from Athena), works on his muscles, grows his hair and—a sure sign of middle-age angst—goes on a consciousness-altering retreat. There, he microdoses a plant-based drug called “moly”, watches his men turn into pigs and, worse still, insists on telling everyone about it afterwards, at great length. Psilocybin has similar effects.

He is socially awkward too. After ten years spent in

the manosphere of the Trojan war, Odysseus struggles to talk to women. You look, he tells one beautiful girl, “like the sprout of the date-palm tree”—an early example of “negging” that, quite rightly, gets him nowhere. He is also flawed from a literary standpoint: “The Odyssey” is not an original work but the lurid sequel to a more sober tale, “The Iliad”, making it the “Dead-pool & Wolverine” of the ancient world. Odysseus, then, is that most modern of all things: problematic.

But his problems are familiar and relatable. As the story opens, it is clear that his home island of Ithaca is suffering from a rampant inheritocracy and chronic shortages in housing supply. This does not at first affect Odysseus: just like Brooklyn Beckham, son of David, Odysseus, son of Laërtes, is a nepo baby—with the patronymic and the huge house to prove it.

Alas, such inequality is dangerous for society, as he soon finds out. When the poem begins, almost everyone on Ithaca seems to be living in Odysseus’s house (then as now, the growth of multiple-occupancy dwellings is another worry). The situation is eventually resolved by Odysseus stringing his bow and shooting everyone until they are “lying in the dust and weltering in their blood”. The lesson? Earlier easing of building regulations and the introduction of a rules-based zoning system to encourage housebuilding would have been a less drastic solution.

“The Odyssey” is also, when read carefully, a management parable. Odysseus is the Peter principle personified. He was a fine fighter, but has received no formal management training—and it shows. He has poor work-life balance (he has not been home for 20 years); he brings his whole self to work (he cries all the time); and he gets everyone who works for him killed—a failure he then neglects to address fully in his lengthy end-of-year performance review (Books 9-12 of “The Odyssey”). He exemplifies the importance of providing adequate training for senior managers.

But as in the modern age, his greatest problems stem from his own cleverness. Blessed with godlike intelligence, he brings destruction upon his world. He and his men cause climate change (through a bag full of winds); harm native species (like the Cyclops); and rashly adopt bleeding-edge technology like the Trojan horse (which causes a lot of bleeding). The greatest tragedy is that Odysseus understands he has done badly and “lets the bright molten tears run down his cheeks”—a feeling familiar to anyone who has been following the news lately.

Odysseus is, then, an imperfect hero. But he also offers hope. By the end of the story he has learnt from his mistakes: he has decided to cut back on travel and work from home a little more; the housing crisis has eased; he has been reunited with his wife; and his land is, finally, at peace. If he can do it, then perhaps there is hope for the world in 2026. ●

Odysseus is the perfect storm-tossed hero for these storm-tossed times

Catherine Nixey Culture correspondent, *The Economist*

How America's powerhouse research universities will shape the next decade

With startup funding up and solutions emerging to vital health and tech challenges, research universities like Michigan are creating the intellectual infrastructure America's economy runs on



Where are humans at their most productive? Over the past two centuries, the biggest breakthroughs haven't occurred in the office or around the kitchen table, but in research laboratories, often funded by government and university partnerships. Human beings have coded DNA, split the atom and discovered penicillin inside what the French chemist Louis Pasteur described as "these temples of the future, of wealth and well-being."

As human civilization becomes more technologically complex, research laboratories are assuming a central role in economic growth. Startups that have emerged from the University of Michigan's research labs now raise eight-and-a-half times more funding (\$663 million) than they did ten years ago, with 32 new commercial ventures launched in 2024 alone.

This investment environment points to a shift in how inventions are scaled and integrated into society. Take transport. Ten years ago, the most advanced roadcars were developed by teams of engineers. Now the race to develop autonomous and self-driving vehicles requires a broader set of expertise—from computer sciences, AI and robotics to ethics and law.

"Universities provide the intellectual infrastructure the nation relies on to

adapt and continue to thrive," explains Domenico Grasso, President of the University of Michigan (U-M), pointing to the university's testbed for autonomous vehicles. "What began as a university-led ecosystem has become an international model, engaging automakers, suppliers and policymakers to accelerate the safe deployment of mobility technologies."

These ecosystems also provide a bulwark against growing economic headwinds. Tariffs on foreign imports have already raised domestic battery production costs by as much as 10 to 20% according to a report published by the Oxford Institute of Energy Studies. To offset the costs, many of the country's most promising start-ups are testing their products in U-M's Battery-Lab 2.0, giving them access to resources that would previously have needed to be imported.

University-led initiatives can also help solve more intractable challenges. An ageing population, for example, threatens to overwhelm existing models of care, while private companies lack the incentives to invest in long-term solutions. "Part of our responsibility is to adopt a holistic approach and leverage our expertise to make healthcare accessible and equitable," says Grasso. HistoSonics, a faculty-led spinout from the University of Michigan, is an example. Developed in the university labs, the company uses non-invasive

ultrasound to destroy liver tumours, offering a safer alternative to surgery.

As universities continue to reimagine our economies, they must also ensure students have the skills to adapt to them, explains Grasso. A 2025 SignalFire study of the world's 15 largest tech firms found that graduate hiring had declined by 50% since 2019, with much of the slack being picked up by large language models and automation.

"Our obligation is to train graduates to innovate at the intersection of emerging fields," says Grasso. The Duderstadt Center at the University of Michigan shows how this training works: a design hub where engineers collaborate with artists, producing hybrid talent that siloed education cannot.

The results are measurable. Michigan graduates earn, on average, over \$1 million more across their careers than those who receive bachelor's degrees from other institutions, as well as benefitting from a 700,000-strong alumni network that extends worldwide. Alumni-founded firms such as Ambiq—whose ultra-low-power microcontrollers drive modern wearables—demonstrate how this talent pool creates entire industries. Universities are not just generating ideas; they are equipping people to turn them into sustainable economic value for the future.

Superforecasters

Masters of prediction

Forecasts for some key events in 2026, from the superforecasters at Good Judgment

MAKING PRECISE numerical predictions is risky. No wonder most people prefer prognosticating in prose. But some less lily-livered forecasters are happy to commit themselves to specific numbers, such as the “superforecasters” at Good Judgment, a forecasting outfit. Here are some of their predictions for 2026.

↓ What will America's real GDP growth rate be in Q4 2026, relative to a year earlier?

Less than 0%	7%
Between 0% and 2%	54%
Between 2% and 4%	38%
Between 4% and 6%	1%
6% or higher	0%

↓ When will Russia and Ukraine sign or announce an agreement to end the conflict in Ukraine?

Before January 29th 2026	1%
January 30th to July 16th 2026	10%
July 17th to December 31st 2026	15%
Not before January 1st 2027	74%

↓ Will SpaceX successfully complete an in-orbit fuel transfer between two Starship spacecraft before January 1st 2027?

Yes	25%	No	75%
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↓ Which party will win control of the two houses of the US Congress in the 2026 midterm elections?

Democrats control House and Senate	15%
Democrats control House, Republicans the Senate	62%
Republicans control House, Democrats the Senate	0%
Republicans control House and Senate	23%

↓ What will be the effective US tariff rate for all imports for consumption in 2026?

Less than 3%	0%
Between 3% and 8%	5%
Between 8% and 14%	55%
Between 14% and 21%	39%
21% or more	1%

↓ What will world GDP growth be in 2026 relative to a year earlier, according to the IMF?

Less than 0%	2%
Between 0% and 1.5%	8%
Between 1.5% and 3%	45%
Between 3% and 4.5%	44%
4.5% or more	1%

↓ Will the Fidesz party list win the most seats in Hungary's 2026 parliamentary elections?

Yes, a majority	32%
Yes, a plurality	23%
No	43%
Elections won't happen in 2026	2%

↓ Who will win the 2026 Brazilian presidential election?

Luiz Inácio Lula da Silva	54%
A PT candidate other than Lula	6%
A Bolsonaro family member	6%
Someone else	34%

↓ Will Donald Trump win a Nobel peace prize in 2026?

Yes	2%	No	98%
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Forecasting winner

Congratulations to Florian Oberhuber, a consultant based in Vienna, who has won **The World Ahead 2025 forecasting challenge**, run in collaboration with Good Judgment. A new forecaster, he is well on his way to being invited to join the superforecasting team, as previous winners have been. **Could you be a superforecaster, too?** Enter our 2026 forecasting challenge, which runs until October 2026, at gjoin.com/economist

HOW THE SUPERFORECASTERS DID



The superforecasters scored 6/9 with their forecasts for 2025, correctly calling the lack of a ceasefire in Ukraine, no change of leader in Myanmar, no launch of the Artemis II lunar mission, Nvidia's market

capitalisation reaching \$4trn-5.5trn, high American tariffs on China and the election result in Australia. But Chinese inflation was lower than the 1-2% they predicted; in Germany's election the CDU/CSU won 208 seats, not the 216-265 they anticipated; and the Conservatives lost the election in Canada.

United States



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Fight club

A divided America celebrates its 250th birthday

James Bennet Lexington columnist, *The Economist*

DONALD TRUMP may not be the most literary of men, but he hit upon the perfect metaphor when he proclaimed that he would mark America's 250th birthday by hosting a brawl on the White House lawn. The coming year will feature plenty of parades, fireworks and commemorative coins. Yet the octagon cage to be erected on the south lawn ahead of July 4th, and the Ultimate Fighting Championship (UFC) bruisers who will grapple within it, will best represent the state of American society, at least as channelled through its politics, in the second year of Mr Trump's second term. Only up to a point, though: the UFC,

unlike American politics, still honours some rules of sportsmanship, forbidding abusive language and "groin attacks of any kind".

The year-long commemoration of the semi-quincentennial (for those who collect such terms) is shaping up not as mere metaphor but as a straight-forward display of America's fractured state. Two rival national commissions are planning events. In 2016 Congress created the America250 Commission, its leadership formed of worthies drawn equally from the Democratic and Republican parties. Its honorary co-chairs are the Obamas and Bushes, and it aspires to a nonpartisan representation of the American story. Representatives of the Trump administration also have roles in that commission.

However, on returning to office, Mr Trump issued an executive order establishing his own "Task Force 250" to "honour the history of our great nation". He is the chair and the leadership is composed entirely of appointees in his administration. How the two commissions will co-ordinate remains unclear. Will Mr Trump's task-force promote the exhibition about George Washington's history of slavery, planned at his Mount Vernon estate? Will it embrace the "decolonisation" and "LGBTQ+ inclusive" guides proposed by the other task-force?

The past has become a partisan battleground in America. To Mr Trump it is the left that struck first, toppling statues of Confederate generals and even Teddy Roosevelt. Part of "making America great again" involves overcoming what Mr Trump and his



▷ followers see as a long-standing distortion of America's story by leftists in academia and the media.

Complaining of a "concerted" effort over the past decade to "rewrite our nation's history" in order to foster "a sense of national shame", Mr Trump issued an executive order in March 2025 to audit how the American story is told at federal historical sites and within the museums of the Smithsonian Institution. His goal is to extol American greatness and extirpate "divisive narratives". In September the *Washington Post* reported that the administration had ordered the removal of signs and exhibits related to slavery at several national parks.

When America celebrated its bicentennial in 1976, the country was struggling through a divisive era, marked by assassinations, the revelations of the Watergate scandal and defeat in Vietnam. Trust in government had collapsed from 77% in 1964 to less than half that level.

With a bipartisan commission, the government succeeded in presenting a patriotic pageant. A "Freedom Train" carried foundational documents of the country and evidence of national achievements,

In 1976, America's institutions were much healthier

such as moon rocks, from town to town, and a flotilla of tall ships sailed into New York's harbour. President Gerald Ford, locked in a difficult presidential campaign, relished the celebration.

Ford exaggerated when he later wrote that, thanks to the bicentennial, "the nation's wounds had healed." But at least it came under criticism from both the left (for covering up America's sins), and from the right (for dwelling upon them). Distrust in government was then a bipartisan affair. It has since become deeply polarised, with supporters of the party in power having a far higher opinion of government competence. Back in 1976 America's institutions were much healthier, too, from Congress to the courts to the news media.

And the Ford administration had less imagination than Mr Trump's. Even such an ambitious official as Henry Kissinger, then secretary of state, told Ford "there is nothing we can do about the past." Mr Trump would never settle for such defeatism. He may not be the reader Kissinger was, but he seems to have a firmer grasp of George Orwell's dictum that whoever controls the present can control the past—and that whoever controls the past, controls the future. ●

With friends like these

Donald Trump's unpredictability has benefits. Now watch for the drawbacks

Anton La Guardia Diplomatic editor, *The Economist*

DONALD TRUMP'S dealings with the world in 2026 will be predictably unpredictable. His ability to confound expectations, to wield big sticks, dangle large carrots and then suddenly change his mind have given him a lot of scope to extract concessions.

Many countries have accepted skewed trade tariffs, fearing the loss of access to America's market. Important European allies, as well as crucial Asian ones such as Japan and Taiwan, have raised defence spending, fearing abandonment. Israel and Hamas have accepted a ceasefire under pressure. Mr Trump claims to have solved eight wars in eight months from Africa to South-East Asia, including an incipient India-Pakistan war, by applying "peace through strength".

The president makes a virtue of his inconsistency. "We have to be unpredictable, starting now," he declared in his 2016 election campaign, and he has subsequently set about fulfilling that promise in both of his terms in office. Nobody would



↑ *Keep 'em guessing*

accuse him of having a clear ideology or strategy. "America First" means whatever Mr Trump says it means.

But he does have discernible impulses. America is uniquely powerful, he says: "We don't need them. They need us. Everybody needs us." Preserving order around the world is thus a scam to "rip us off". Trade deficits are subsidies which countries must repay through tariffs. Oil, gas and critical

"We have to be unpredictable, starting now," declared Mr Trump in his 2016 campaign

minerals must be secured, in Greenland's case even by potential annexation. The use of force—short, sharp and shocking—unbalances foes. Watch Venezuela: a big move to oust the regime could be a big failure. More of America's forces in Europe, Asia and the Middle East will leave in 2026. Economic gifts, and taking America's deported migrants, buy you favours; upsetting Mr Trump's friends earns his enmity.

Mr Trump has long had a soft spot for Russia. He is also discovering that America needs access to China's market and the rare-earth minerals that the country supplies. If the gains of unpredictability were visible in 2025, the losses will start to become apparent in 2026.

Mr Trump's promise to end the Ukraine war on his first day in office may not be realised in his first year, either. The Russian leader seems more interested in friendship with China than America. Mr Trump may soon discover that he needs allies, after all. But he may not realise it until a big crisis emerges.

Will America's friends still help him, after being mistreated? Some may have little choice. European allies fear Russia, and Asian ones fear China. But co-operation will be more grudging. And Mr Trump has antagonised some of the world's biggest fence-sitters. Brazil and India face hefty sanctions, even though America has long wooed them. Poor countries in Africa and elsewhere have the weight of numbers at the UN but have suffered from America's aid cuts.

When the world's most powerful man is also the world's most mercurial, countries will inevitably hedge their bets, or drift towards China. These days its leader, Xi Jinping, looks reassuringly predictable. ●

Reviving the Democrats

Success in the midterms will not solve their problems

Kennett Werner Washington correspondent, *The Economist*

AS DONALD TRUMP has taken hold of presidential power with both hands and begun testing the law from all angles, America's opposition party has floundered. Democrats lack leadership and direction. This will probably change in the coming year as they get their fight back. In the midterm elections, in November, they have a decent chance of retaking the House of Representatives. That would mark the end of the legislative phase of Mr Trump's presidency and the start of oversight hearings, and could well mean a third impeachment. But even a good electoral showing for the Democrats in the midterms should not allay worries about their long-term prospects.

The out-of-power party almost always gains ground in the midterm elections. So Mr Trump could be in for a drubbing, exacerbated by continued high prices and a sluggish labour market. Democrats need only flip a handful of seats to retake the House, though redistricting will make that harder. Their chances of winning back the Senate are slim. But Democratic control of the House would grant subpoena power and the

ability to go on the offensive, causing headaches for the Trump administration.

Then what? Midterm elections are more of a referendum on the president than a choice between two competing visions for the country. The party's performance in the coming year will not be a reliable guide to its chances in the next presidential contest in 2028. Democrats will need to offer much more than just opposition to Trumpism. Their prospects for 2028 will depend on who becomes their standard-bearer.

Picking a presidential candidate with appeal outside the highly engaged liberal base would be a good start. But demographic and structural shifts make that tricky. As Democrats became the party of the college-educated, they lurched to the left, especially on cultural issues. People moving to places where locals share their politics has reduced the number of competitive congressional seats. These two trends have sidelined Democrats who hold moderate views on issues such as immigration and gender.

After Mr Trump's victory in 2024, some ambitious Democrats seemed to grasp this. Ruben Gallego, a senator from Arizona, co-sponsored the Laken Riley Act, which requires the detention of immigrants charged with crimes.

Progressives are "largely out of touch with where your average Latino is"

Progressives, he said, were "largely out of touch with where your average Latino is". Gavin Newsom, California's governor, declared that it was "deeply unfair" to let trans women compete in women's sport. Many Democrats want to focus less on culture-war issues and more on affordability. Progressives, including Alexandria Ocasio-Cortez and Zohran Mamdani, want to raise taxes on the rich.

The party likes to think it has a deep bench. Among the biggest names are pugilistic governors in liberal states, such as J.B. Pritzker in Illinois and Mr Newsom in California. They also have strong, battle-tested politicians in purple and red states, such as Andy Beshear of Kentucky, Gretchen Whitmer of Michigan and Josh Shapiro of Pennsylvania.

But presidential hopefuls need experience in winning over voters who otherwise dislike their party. That is a lot of people. For even as Americans increasingly disapprove of Mr Trump's performance, they still trust Republicans more on crime, immigration and the economy. Central to any Democratic resurgence will be working out why. ●

Experimental outcomes

Results from Donald Trump's economic experiments will start to come in

Archie Hall US economics editor, *The Economist*

SCIENTISTS LIKE to run experiments carefully, isolating variables one at a time. Donald Trump operates rather differently. Since returning to power, he has set off an expansive spree of economic experiments—the most radical such programme in America for a century.

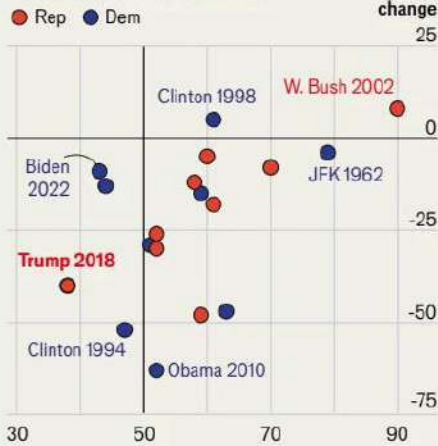
Tariff rates are now at levels last seen in the 1930s. Government deficits are the widest ever, other than in wars, pandemics or deep recessions. No longer is there even a pretence of a plan to bring public spending into balance. The independence of the Federal Reserve is under its most sustained assault since the Nixon years. Annual immigration has been yanked down from several million to near zero.

On its own, any one of these policy shifts would be a major departure from business as usual, with serious consequences for America's economy. What makes this moment distinctive is that they are happening at the same time. The American public, and the world economy, have become Mr Trump's unwitting test subjects.

Some consequences are already visible. Tariffs and the uncertainty around them have dampened growth and raised prices. Low migration has messed with employment figures. But 2026 will bring clarity about how much Mr Trump's experiments have upended the economy. ➤

→ Checks and balance

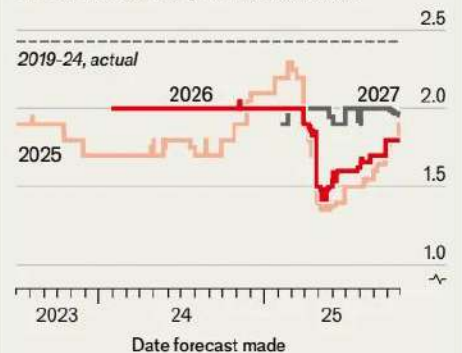
US House of Representatives midterm elections, 1945-2022



Sources: Gallup; The American Presidency Project

→ Weak prophets

United States, GDP growth forecasts, %



Sources: Bloomberg; Haver Analytics

It may fall short of doomsters' worst fears. Trade barriers will not benefit America, but manufacturing and goods trade make up a relatively small share of GDP. Supply chains will prove adaptable, as they did during the pandemic. And much of the economic harm of Mr Trump's agenda—for example, from making America less attractive to brainy immigrants, or undermining competition by meddling with private firms like Intel—will take years to materialise.

Moreover, the surge in government spending unleashed by the One Big Beautiful Bill Act will start showing up in 2026, ginning up demand. Easier monetary policy from the Fed will also boost the economy. That economic sugar-high could help obscure the full impact of Mr Trump's economic experiments, at least for a while.

And investors seem unperturbed for

now. Stockmarkets are pushing all-time highs. In 2025 bond yields rose by less in America than in any other rich country. Forecasters have erased the big hit to growth that was projected when Mr Trump announced his tariffs in April (see chart).

Still, the consequences of Mr Trump's stagflationary mix of policies will probably show up clearly in the GDP and inflation figures for 2026. Americans will also notice higher prices, as tariffs make goods scarcer and lower immigration does the same to labour. But will voters blame Mr Trump in the midterm elections?

There is also the risk of a more severe crisis. This is most likely to start in markets, for instance with a stockmarket crash. The AI boom has stretched valuations, and some disappointment is inevitable. Americans have piled huge wealth into stocks. Losing those paper

gains could seriously crimp spending.

Also conceivable, and far more troubling, would be a bond-market panic. High government debt and deficits mean investors are looking at scenarios that would once have been absurd, such as an inflationary default, where high public debt is repaid by debasing the dollar, or financial repression, where private funds are channelled towards the government to help reduce its debt. Jerome Powell's retirement as Fed chair in May could be a moment for that to crystallise, especially if he is replaced by an easy-money lackey.

In Europe, bond vigilantes are circling. Bond yields in France and Britain spiked in 2025 after governments shirked tough budgetary choices. A similar scare in America, the world's main issuer of safe assets, would be momentous. But it is no longer unthinkable. ●

Overreach

The immigration crackdown is only just getting started. How far will it go?

Aryn Braun West Coast correspondent, *The Economist*

MASS DEPORTATION was never going to be achieved in one year. The idea, from the start, was amorphous. The money and manpower required to round up thousands, let alone millions, of illegal immigrants would take time to secure. But President Donald Trump's first year in office has laid the groundwork. In 2026 a dollop of cash from the One Big Beautiful Bill Act will fund more immigration agents, detention centres, removal flights and surveillance technology.

Much of Mr Trump's strategy is already clear. Expect old prisons to reopen and new ones to be built to house migrants awaiting deportation. Tent camps, like Alligator Alcatraz in Florida (pictured) and one at a military base in Texas, will become more common. The oversight bodies meant to ensure the safety of migrants and workers at these makeshift jails have been defanged, so conditions will deteriorate as more people are crammed in. Immigration and Customs Enforcement (ICE), the agency that carries out deportations, is recruiting. Agents will be deployed in greater numbers to "sanctuary cities" such

as Los Angeles and Chicago that limit co-operation with federal immigration officers. Raids and seemingly indiscriminate street arrests, upheld recently by the Supreme Court, will become common in Democrat-run places. So will clashes between ICE agents and protesters.

Yet mass deportation is just one piece of Mr Trump's broader crackdown. His ban on asylum at the border (which is making its way through the courts) and a muscular military presence there mean that few migrants will try to cross. Legal migration may fall, too, as onerous application requirements and new fees slow down the process for would-be Americans.

The direction of travel seems clear. But two factors could yet convince Mr Trump to ease up. First, early evidence from California suggests that worries about ICE raids are keeping some workers at home.

Mr Trump seemed fleetingly sympathetic to farming and hotel bosses when they expressed fear of a labour shock. The business lobby may try to apply pressure, though Mr Trump's penchant for revenge means bosses may opt to make their case in person—say, over dinner at Mar-a-Lago—instead of criticising policies in public. At the same time, immigration hardliners within the administration, such as Stephen Miller, will encourage the president to stay the course. So far, Mr Miller is winning.

Second, public approval for Mr Trump's handling of immigration has plunged since he took office. Americans favour deporting criminals, but do not like to see masked agents shoving people into unmarked vans. November's midterm elections offer a test. Will Republicans up for re-election still campaign as relentlessly for deportations? And, if they do, will they win? ●



↑ See you later, crocodile

By Invitation

How Donald Trump might challenge the 2026 election results

ON NOVEMBER 3RD 2026 Americans will vote in midterm elections to determine control of Congress. Republicans hold a narrow majority in the House and a firmer grip on the Senate. The House race thus offers Democrats their best shot at putting some brakes on the Trump juggernaut.

The midterms will unfold amid long-held public distrust of the electoral process—distrust that Donald Trump has been actively stoking. More ominously, under the banner of defending “honest elections”, he appears to be laying the groundwork to challenge and possibly manipulate them. His words and actions strongly suggest he may use the formidable powers of the presidency—and possibly even the armed forces—to resist 2026 electoral results he dislikes.

Mr Trump has long framed any electoral loss as proof of opponents’ fraud. He engaged in unprecedented efforts at the end of his first presidential term to alter the outcome of the 2020 presidential election. His charges have weakened the once-bipartisan consensus that election administration should be insulated from politics.

In 2026, as in past elections, both parties can be expected to mount co-ordinated legal challenges in races they seem to be losing by alleging error, fraud or other irregularities, demanding recounts and contesting results in the courts. Yet such struggles could enter a whole new dimension owing to Mr Trump’s apparent readiness to use the redoubtable powers of the presidency to deny election results. Given the enormous stakes and his record of pushing every advantage at the legal margins and beyond, this prospect must be taken seriously.

At the core of Mr Trump’s plan is the heretical idea that, as he proclaimed on Truth

Jack Goldsmith and Bob Bauer, government lawyers under George W. Bush and Barack Obama respectively, explain



Social, the states “must do what the Federal Government, as represented by the President of the United States, tells them, FOR THE GOOD OF OUR COUNTRY, to do.” This flies in the face of the constitution, which expressly allocates authority over the “Times, Places and Manner” of congressional elections to the states and to Congress, but makes no mention of a role for the president.

Yet Mr Trump has issued an executive order that claims presidential authority to impose on states his own view of the needed voting rules—

Perhaps the gravest worry is that Trump will deploy the armed forces under the Insurrection Act

including proof of citizenship, revised machine standards and limits on mail-ballot counting. The order has been challenged in court but the issues are not finally resolved. Backing up this legal infrastructure is what Mr Trump says is a whole-of-government effort to ensure that “we...never let what happened in the 2020 election happen again.” He recently said that “everybody is working on it,” including the director of the FBI and the director of national intelligence. He has also put election-deniers in key posts.

With this legal infrastructure and team in place, Mr Trump could order many kinds of federal intervention. As he did in 2020, but with a stronger hand, he could push officials to intervene in states, potentially seizing voting machines. He

could use federal agencies to demand that states co-operate with his administration’s efforts to detect election fraud. He could intimidate election officials by ordering investigations of claimed irregularities.

But perhaps the gravest worry is that Trump will deploy the armed forces under the Insurrection Act. It authorises the president to use such forces to “take such measures as he considers necessary to suppress” any “unlawful combination” or “conspiracy” that “opposes or obstructs the execution of the laws of the United States”. Mr Trump could claim his opponents are obstructing election laws and call in troops to enforce those laws in accordance with his wishes. Such deployments could occur before, during or after voting begins.

Much of the Trump plan outlined here would be either unlawful or legally controversial. The courts, including the Supreme Court, performed admirably to blunt Mr Trump’s legally deficient challenges to the 2020 presidential election. But political strong-arming and investigative tactics that aim to intimidate are hard to challenge in court.

The integrity of the 2026 election could thus, as in 2020, also depend on the fortitude of state and local officials who administer elections. And it would depend, ultimately, on how the American people react. A broad, highly visible public reaction could influence elected officials within Mr Trump’s party as they weigh the risks of complicity in any effort to subvert election results. In the darkest scenarios, such as the deployment of troops to jurisdictions where Republicans lose, the degree of responsible civic resistance could determine whether the nation’s voting institutions hold firm. ●

Self-defeating

Policies on foreign students will continue to harm America's soft power

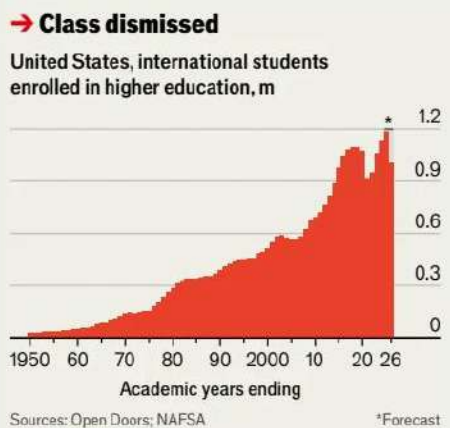
Kennett Werner Washington correspondent, *The Economist*

IN 2023 PEW, a pollster, surveyed foreigners about their attitudes towards American soft power. Seven in ten rated America the best or better than other rich countries on the quality of its universities and tech innovation. As it happens, foreign talent makes both more dynamic. At American universities 70% of full-time graduate students in fields related to artificial intelligence are foreigners. Brainy immigrants who come to study science or engineering—as more than half of them do—often stay to launch a business. A quarter of American startups worth more than \$1bn had a foreign-born founder who arrived as a student. Perhaps the best known is Elon Musk.

America welcomed a record number of international students in the year of Donald Trump's re-election. The decline since then will probably accelerate. The detention and deportation of some pro-Palestine student activists was unnerving, though judges have paused that. The bigger change has been to make visa-processing more cumbersome. Consulates are now scouring applicants' social-media profiles for anything they deem a threat. More consequentially, the government has proposed a rule that would limit foreign students to a four-year stay unless they can secure an extension.

Under the current regime there is no such limit: foreigners maintain their student status if they bounce between degrees. The cap will affect anyone in a PhD programme, which takes about six years, and compel hundreds of thousands of students a year to request more time. Already there is a long backlog of such applications; the wait is more than six months. Of course, subjecting foreigners to hassle may well be the point. Marty Bennett, an industry consultant, says the uncertainty and frustration among foreign students is similar to the period after 9/11 and to when the pandemic hit.

University bosses are feeling it, too, and not just because they are missing out on fees. They are also losing billions of dollars in government research funding. The



Trump administration has cancelled grants for disfavoured causes (vaccines, climate change, LGBT health) and institutions (the Ivy League). Add in budget and staff cuts at government research agencies such as the National Institutes of Health, and the result is a brain drain. Springer Nature, which runs a jobs board for scientists, reported that the number of Americans applying to work abroad jumped by 32% year on year, in the first three months of 2025. Inbound applications from foreigners fell by about a quarter.

Innovation and entrepreneurship will suffer as a consequence of Mr Trump's funding cuts and immigration restrictions. An even bigger hit to America's standing will come from the president's punitive approach to trade and diplomacy. In ten of the 25 countries surveyed by Pew, the proportion of people who viewed China as the dominant economic power leapt between 2023 and 2025. Meanwhile, distrust of America is rising fast among even its closest allies. Since 2019 the share of Canadians naming their southern neighbour as their country's biggest threat has tripled, to three in five. ●



Deep bench

The president can expect the justices to hand him more wins—and a few losses

Steven Mazie Supreme Court correspondent, *The Economist*

EARLY IN HIS second term, Donald Trump has profited from his previous appointments of Justices Amy Coney Barrett, Neil Gorsuch and Brett Kavanaugh to the Supreme Court. With few exceptions, they and their three conservative colleagues have removed obstacles to Mr Trump's plans imposed by lower courts—letting him ban transgender soldiers from the armed forces, gut the Department of Education, sack heads of federal agencies, rescind protections for more than 1m migrants and target suspected aliens based on race.

But these judgments have come on the justices' "emergency" or "shadow" docket that produces only interim rulings. Several weighty questions are now returning to the justices' inbox as "merits" cases—the regular, slow-moving docket marked by several rounds of written briefs, oral argument, weeks or months of deliberation and full opinions announcing a final judgment. When rulings are issued in 2026, Mr Trump will find plenty of reasons to cheer—and perhaps a few to jeer.

The president's biggest wins will involve a favourite pastime going back to his star run on "The Apprentice": removing personnel at will. Mr Trump fired nearly 200 people as a TV personality over his 14 seasons on air. He has sacked tens of thousands in the first year of his second stint in the Oval Office—from inspectors-general and military leaders to probationary employees, federal prosecutors and executive-branch agency heads. In 2025 the Supreme Court provisionally blessed many of these dismissals in emergency orders.

Those dismissals will probably be finalised in the coming year when the justices formally consider scrapping a New Deal-era precedent, *Humphrey's Executor v United States*, that has, for 90 years, protected independent agency heads from arbitrary removal. Over dissent from the three Democratic appointees, the court's six conservatives all but abandoned *Humphrey's Executor* in May. Its demise will be sealed in the spring. But Mr Trump's ►►

▷ sacking spree will probably hit a wall in his bid to fire Lisa Cook, a governor of the Federal Reserve. The Fed, the court wrote in 2025, is “a uniquely structured, quasi-private entity” with a “distinct historical tradition”—and the justices understand market turmoil may ensue if they permit the president to undermine the central bank’s independence with a disingenuous “for cause” firing.

Although Mr Trump’s aggressive tariffs could roil the economy, the Supreme Court will probably back them early in 2026. Vulnerabilities in the challengers’ claims were evident when the Federal Circuit Court of Appeals ruled against them in August. Four judges, including two appointed by Barack Obama, would have upheld Mr Trump’s tariffs. Though a 1977 statute does not mention tariffs explicitly, the dissenters argued it authorises presidential tariff adjustments through its grant of power to “regulate...importation”

Expect the Supreme Court to defer to Mr Trump’s judgment that higher tariffs are necessary

during threats to America’s national security, foreign policy or economy. After the oral argument in November 2025, expect the Supreme Court to defer to Mr Trump’s judgment that higher tariffs are necessary to address emergencies stemming from trade deficits and opioids.

As for rulings that could go against the president, one of his more extravagant immigration policies—relying on the Alien Enemies Act, an 18th-century law, to whisk alleged gang members out of the country—could unravel if the issue returns on the merits docket. On birthright citizenship, after curbing nationwide injunctions in June, the court will probably

uphold the 14th Amendment’s guarantee of it, against Mr Trump’s executive order. The court may also be inclined to stand up for states resisting Mr Trump’s delivery of National Guard troops, and for Congress’s power of the purse over Mr Trump’s efforts to “impound” (ie, refuse to spend) funds that have been duly appropriated.

The usually ponderous Court has done itself and the country no favours by ruling so swiftly and agreeably on the Trump administration’s emergency petitions. Many of its orders (as often seen on the shadow docket) have been accompanied by scant reasoning. Some justices have criticised lower courts for failing to heed its directions, prompting extraordinary rejoinders from some judges. With more time to reflect during the second year of Trump 2.0, the court has the chance to develop a more measured approach. But Mr Trump’s success on the emergency docket foretells more wins ahead. ●

Own goal

Will visitors and Hispanic fans avoid the World Cup?

Jon Fasman Senior culture correspondent, *The Economist*

IN 2022 THE men’s football World Cup was hosted by Qatar—a country with no real footballing tradition, a deeply inhospitable climate and just eight stadiums (seven of them built after it was awarded the tournament). Russia, not renowned for its warmth or the abundance of tourist-friendly destinations, hosted the one before that. So, when America, Canada and Mexico jointly won the rights in 2018 to host the 2026 World Cup, many officials within FIFA, football’s international governing body, must have breathed a sigh of relief.

But that was before the Trump administration began locking up tourists for minor violations, making some tourist-visa applicants post \$15,000 bonds or snatching foreign students off the street for things they had said about

politics. It was also before Donald Trump began threatening the other two host countries, and using the armed forces to blow up boats in the Caribbean sea that he claims were smuggling drugs. Will fans still come to the 2026 World Cup, or will it be an embarrassing bust?

First, the bear case. Foreign arrivals at American airports fell by about 4% in 2025, compared with 2024, according to figures from the International Trade Administration, a government agency. At the 2025 Club World Cup, a FIFA tournament held across

America, just 57% of seats were filled in the group stage. There may also be concerns about law and order at games. A year earlier, the final of the Copa America in Miami was chaotic, with crowds breaching stadium security. In one semi-final, Uruguayan players fought drunken fans in the stands.

No World Cup has ever had three host countries, and a smooth tournament will require co-operation. But Mr Trump has threatened to move games out of cities he deems “not safe”. He has also banned citizens of 12 countries—including Iran, which is a

participant—from entering the United States (though players are exempt). Fans, especially undocumented ones, among America’s huge local Hispanic fan base, may also stay away, concerned that immigration authorities will show up at games.

But then there’s the bull case. The United States last hosted the World Cup in 1994, two years before Major League Soccer (MLS), the country’s professional league, played its first game. As it turned out, 1994 was FIFA’s most successful World Cup to date, setting records for per-game and total attendance.

Today the home-grown fan base is much deeper (see Business section). There are 30 MLS teams (including three in Canada) that draw an average of more than 23,000 fans per game. British and European league games are broadcast on television; in 2024, 50m Americans watched matches with no American teams involved.

Mr Trump declared during his speech to the UN in September, “I hope you all come.” His cabinet officials have been somewhat less welcoming. “Go on a road trip. See America,” said Sean Duffy, the transport secretary. “Don’t stay too long.”



A close-up portrait of a woman with a thoughtful expression, looking upwards and to the right. Her hair is pulled back. The background is a warm, textured brown. Several mathematical formulas and symbols are scattered around her head, appearing to float in the air. The text 'Keep thinking.' is written in a white serif font at the top.

Keep thinking.

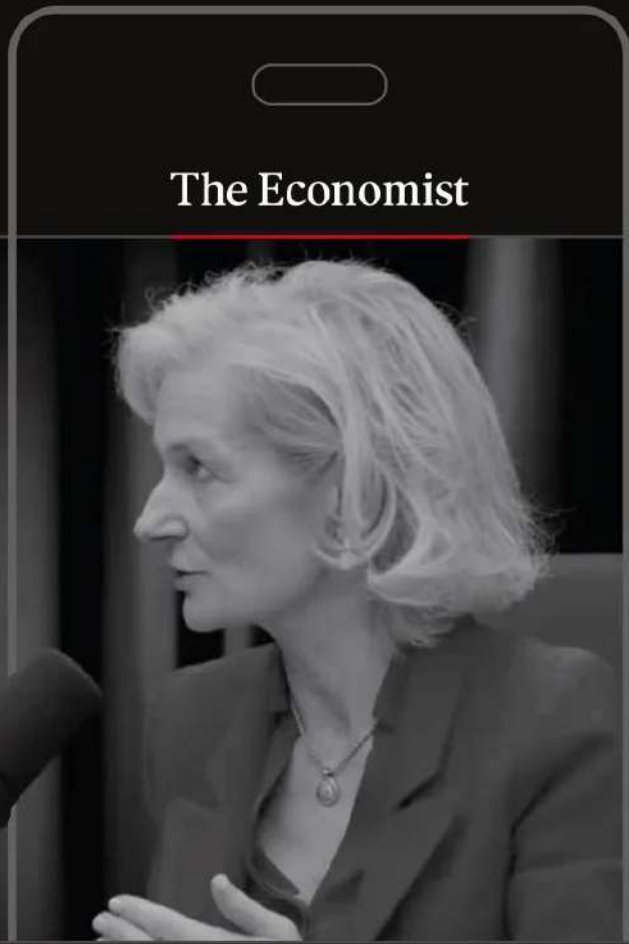


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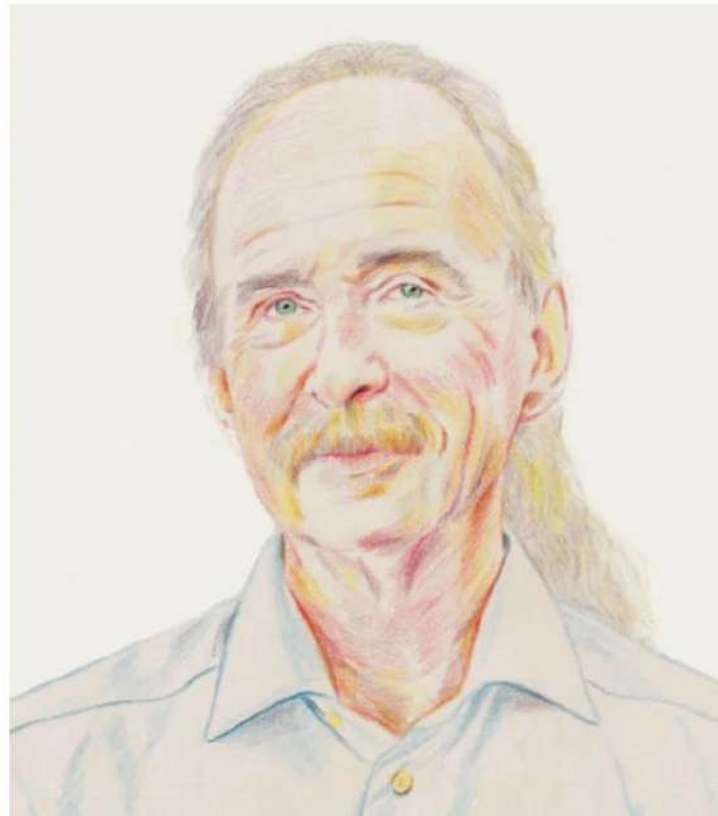
Lessons from the Gilded Age

IN 1894, OVER the objection of the governor and the mayor, President Grover Cleveland sent American soldiers into Chicago and then invoked the Insurrection Act to suppress strikes and protests. His move precipitated the violence it was supposed to prevent. Two years later, Cleveland, the only president before Donald Trump to win a second term after losing a re-election bid, had become a pariah. A bitter presidential election between William Jennings Bryan and William McKinley underscored the deep divisions and glaring problems of the Gilded Age. The era was coming to an end, but not as the result of McKinley's victory. It sank under its own weight of accumulated problems and aborted solutions.

What lessons does that period hold for today? The 1894 moment resonates in this second Gilded Age. Yet these two eras are not doppelgängers—they have distinct and important differences. Both came at the end of great struggles: the American civil war and the cold war. Victories over rival systems produced euphoric predictions of hegemony and consensus, but the ensuing Gilded Ages instead became revolutionary periods without either revolutionary politics or any dominant social vision. Both transformed the economy. The first turned a nation of independent producers and slaves into a nation of discontented wage labourers. The second shredded the social safety-net that arose in the 20th century and ushered in the gig economy with its associated precarity.

And both eras were periods of technological progress, economic growth and rough parity between parties. Mass immigration produced a diverse population and compensated for declining

History offers clues to what comes next, says Richard White, emeritus professor of American history at Stanford University



birth rates. But festering beneath the gilded surface that gave the eras their name lurked political paralysis, corruption, gross economic inequality, a distrust of politicians and institutions, racial conflict and declining material well-being.

In each period intense partisanship produced few lasting political accomplishments. Obamacare may be the only successful constructive rather than destructive legislation of the second Gilded Age. America had its age of Jackson and Roosevelt, but there was no age of

There are no laws of history, except one: it does not go backwards

Cleveland, and I doubt there will be an age of Trump.

The politics of both periods were backward-looking. Anti-monopolism, present in both political parties, astutely assessed the problems of the first Gilded Age, but was ultimately reactionary, longing for an earlier world of free labour, small producers and Protestant values. The MAGA movement and legal originalists also envisage a return to an earlier America. The legacy of both periods was, and is, their problems—not their solutions.

Charles Francis Adams, president of the Union Pacific Railroad, described the 19th-century tycoons he knew in a way that resonates today. They were “big financially”, but were “mere money-getters and

traders” who were “unattractive and uninteresting”.

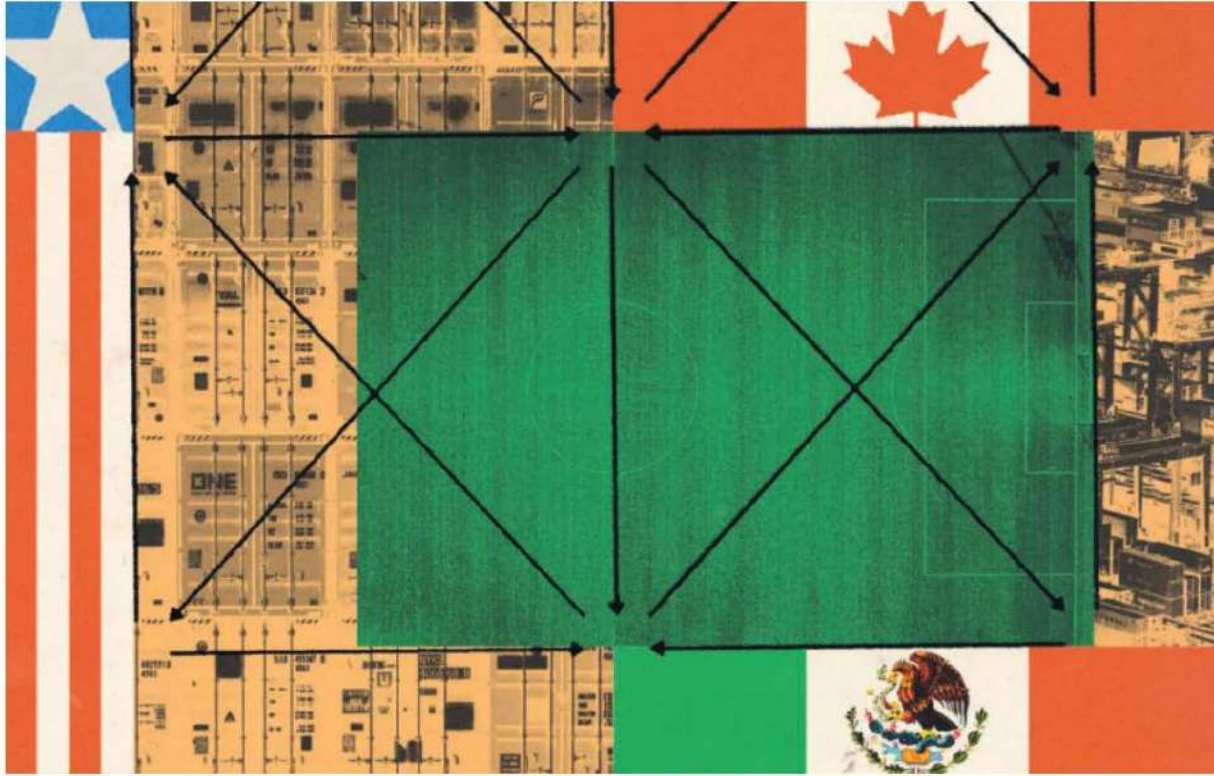
In the first Gilded Age solutions percolated to the surface only to be blocked by the courts. But they resurfaced later. In the 20th century, new bureaucracies gained power and autonomy. A producer-based economy yielded to a consumer-based one. Overcoming the courts required constitutional amendments: to shift taxation from tariffs to income taxes, institute direct election of senators and enfranchise women.

In the current Gilded Age, attempts are being made to smash some of those reforms—and indeed even some older reforms from the Reconstruction era. But whatever short-term success they achieve, they will ultimately fail. There are no laws of history, except one: it does not go backwards.

For clues to America's future, consider its problems. There is surprising consensus across the political spectrum on some of them: the struggle to make ends meet for many citizens, corruption, and political and economic unfairness. Other challenges, such as climate change and the difficulty of funding the government, cannot be avoided by denying them.

The Progressive era that followed the first Gilded Age was flawed—it betrayed black Americans and immigrants—but it was forward-looking. It drew upon ideas from both parties and emphasised creating institutions rather than destroying them. The current Gilded Age will end when a new movement abandons today's politics and tackles the all-too-obvious problems of the past half-century. Periods that follow Gilded Ages are eras in which politics catches up with revolutionary change. ●

The Americas



Football and free trade

It could be a tough year for North American leaders tackling both

Sarah Birke Bureau chief for Mexico, Central America and the Caribbean, *The Economist*

THE COMING year gives countries in North America a good reason to strengthen ties and celebrate together. In June Mexico, the United States and Canada will co-host the men's football World Cup. Then, in July, the three countries will start a review of their free-trade deal, which makes the region both richer and more competitive. Could both be easy wins?

If only. Donald Trump casts a shadow over both events. He has threatened to shift some football matches within the United States away from cities he considers dangerous. (He lacks the authority to do so,

but that may not stop him trying.) The event already underlines who leads the three-way partnership: the United States will host 78 of the 104 matches, compared with just 13 each in Mexico and Canada. All three teams qualify automatically as hosts, but will be in different initial groups, so would not meet unless they proceed to the knock-out stages.

The review of the United States-Mexico-Canada Agreement (USMCA) will be uglier, and the three sides could be kicking chunks out of each other from the start. They must decide whether to extend the deal for a further 16 years; failure to do so could lead to annual reviews until it automatically lapses in 2036. Less likely, any of the parties can withdraw with six months' notice. Mr Trump negotiated the deal in his first term to replace the North American Free Trade Agreement (NAFTA), which he called "the worst deal ever". Yet he often seems little fonder of USMCA, favouring his "America First" vision.

Much is at stake. The North American economic area is the world's largest free-trade bloc by output, with a combined GDP of \$31trn, or 28% of global GDP. Intra-regional trade exceeds \$2trn a year, more than the CPTPP, signed by mainly Asia-Pacific countries, and second only to the European Union. North America accounts for 14% of global exports.

The three economies are complementary: the United States provides capital, innovation and scale; Canada, natural resources and energy; and Mexico, labour and manufacturing. Together they form supply chains none could replicate alone. Cars and ►►

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WHAT IF?

America has deployed ships and drones to the Caribbean, blowing up alleged drug traffickers and menacing President Nicolás Maduro of Venezuela. **What if Donald Trump ousts Mr Maduro?**

A traitorous crony, not American special forces, may be most likely to do the deed. That would change little for Venezuelans, but could mean juicy oil deals for American firms.

► appliances cross borders several times during manufacturing. This integration has helped the bloc compete with Asia, especially China. Yet to compete even better, deeper co-operation is needed. Disrupting North America's supply chains would raise prices for consumers and undercut the competitiveness of the region's global exports.

Mexico is most exposed to disruption of USMCA: over 80% of its exports go north. But the other two would also suffer. Three-quarters of Canada's exports go to the United States. Almost a quarter of American exports go to its two neighbours, often from politically sensitive sectors such as agriculture. Mr Trump's tariffs—some imposed on goods outside USMCA, others within it—have already hurt many.

This all makes USMCA's renewal likely, but the negotiation could be fraught. Mr Trump's concerns include tightening rules on how much of a vehicle must originate in the region to qualify for tariff-free trade. Next come fears over China. Mr Trump sees Mexico as a back door for Chinese firms entering regional supply chains. Other complaints include non-tariff barriers affecting dairy exports to Canada, and energy policies in Mexico that favour state firms.

Mexico and Canada are taking different approaches. Canada has criticised the "rupture" Mr Trump is causing. Mexico's president, Claudia

The three sides could be kicking chunks out of each other from the start

Sheinbaum, has sought to earn his respect while conceding to many demands. Mexico has, for example, created a body to vet Chinese investment and proposed tariffs on imports from countries with which it has no free-trade agreement (also aimed at China). Both say they will make more within their own borders.

Domestic politics will complicate matters further. Mr Trump faces midterm elections in November and will be playing to his base. He is watching the region closely as he clamps down on migration and drug-trafficking. Mexico has helped cut the number of migrants, but dismantling drug gangs is harder. Some Republicans want to bomb targets in Mexico—which would plunge relations into crisis.

Ms Sheinbaum is hugely popular but faces difficulties of her own. Working with Mr Trump while also asserting sovereignty is a delicate balancing act. A judicial reform—which is replacing career judges with elected ones—has spooked investors. Growth is sluggish, and the government has little money to spend on infrastructure that might boost it.

Uncertainty thus hangs over North America in 2026. Hosting a bunch of men kicking a football will be child's play alongside the decisions about USMCA that will follow. There is still a chance the agreement will not be renewed. If that is Mr Trump's doing, Canada and Mexico will be quick to cry foul. ●

Will Argentina turn normal?

Javier Milei has a remarkable opportunity to transform the country

Kinley Salmon Latin America correspondent, *The Economist*

IF JAVIER MILEI'S first year as president was defined by a fiscal chainsaw and his second by managing the peso and elections, then his third will be about getting laws through Congress. After a thumping win in the midterms, he plans sweeping structural reforms. His party is much stronger than it was but he still does not have an outright majority in Congress, so negotiation with the sensible parts of the opposition will be crucial.

For much of 2025 Mr Milei's project seemed to be in difficulty. A series of corruption scandals hit his popularity, and his attempts to keep the peso artificially strong to pull down inflation led to heavy pressure on the currency ahead of the midterm elections. An extraordinary bail-out from the Trump administration helped calm markets enough to make it to the elections with the peso just about

under control. Defying the expectations of pollsters and markets, Mr Milei's party then beat the Peronist bloc by about nine points. Faced with a choice between Mr Milei, about whom plenty of voters are lukewarm, and the Peronists, who presided over decades of economic woe, the message was clear, despite low turnout.

Attention then turned to the question of whether Mr Milei would alter the exchange-rate regime to allow the peso to float more freely. Many economists still believe it is overvalued. Mr Milei is stubborn and resistant to changing the scheme in which it floats only within a band. Still, some adjustment to it looks likely in 2026, if not before. He may also shift to an orthodox monetary programme in which the central bank sets interest rates to anchor inflation. If he is feeling bullish

he might remove most of the remaining capital controls that restrict companies from moving money out of Argentina.

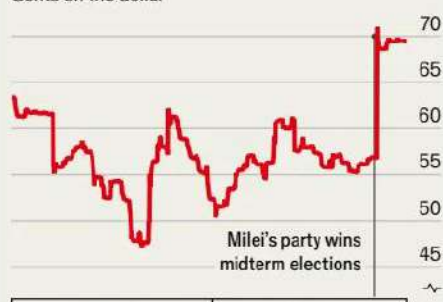
The shift could temporarily bump up inflation. Happily, it is also likely to boost growth and investment and make it much easier for the government to accumulate foreign reserves. This would probably give markets the confidence to lend to Argentina again, which is crucial to the country's long-term debt sustainability. There is a strong chance Argentina will tap global capital markets in 2026. Some financial support from the United States will remain, but it will play a smaller role.

Macroeconomic normality would be a tremendous achievement. But to thrive, Argentina needs structural reforms. Mr Milei's priorities, which may go to Congress in late 2025, are the liberalisation of labour laws to reduce informality; a sweeping simplification of the tax system; and passing a budget to lock in his fiscal surplus. He is likely to adopt a more conciliatory tone to start with, but negotiations will be intense. Better relations with powerful provincial governors will be crucial. After some concessions, Mr Milei is likely to get Congress to approve all three of his aims.

If he makes those reforms, 2026 could be a very good year for Mr Milei. Yet the dynamics will probably become trickier as the 2027 elections near. Politicians may become less co-operative. And if a leading Peronist such as Axel Kicillof, the governor of Buenos Aires province, is polling well, markets could suddenly begin to teeter. ●

→ Rollercoaster ride

Argentina, ten-year government-bond price, 2025
Cents on the dollar



Sources: Bloomberg

*To Oct 30th, 10:00 GMT

The centre can hold

Could Brazil's mega-election herald the end of polarisation?

Ana Lankes Brazil correspondent, *The Economist*

BRAZILIANS WILL head to the polls in October to elect a president, a vice-president, 54 of the country's 81 senators, all 27 governors and more than 1,500 state-level and federal members of congress. If no presidential candidate receives more than 50% of votes on October 4th, a run-off will be held on the 25th. Many Brazilian analysts believe the presidential race will feature traditional politicians rather than populist outsiders. If they are correct, the election would mark the return of moderation after a decade of polarisation and political chaos.

Politics in Brazil, as elsewhere, has been shaken up in recent years by populism. Since it became a democracy in 1985, Brazil has mostly been run by centrist and left-wing, though corrupt, parties. In 2018 voters chose Jair Bolsonaro, a hard-right president who styled himself the "Trump of the tropics". In September he was found guilty of trying to launch a coup to remain in power after losing his bid for re-election in 2022. The ruling definitively takes him out of the running for 2026. Mr Bolsonaro's attempts to enlist the help of President Donald Trump, who applied tariffs to Brazilian goods to shield his friend from

prosecution, have been unpopular in Brazil and will make it hard for him to anoint one of his four sons or his wife as his successor.

Yet Brazilians are also tiring of their current president, Luiz Inácio Lula da Silva, a stalwart of the left who has been at the top of Brazilian politics for three decades. Lula, as the president is known, has strongly hinted that he will run for a fourth term in 2026. But a large majority of Brazilians think the 79-year-old should not run again. Lula's approval ratings, while solid, are flatlining, suggesting that it may be a hard race for him to win.

Fatigue with both the hard right and the left opens up space for a centrist resurgence. Brazil's tiny, fractured parties are in the process of consolidating into bigger coalitions, which mostly lean towards the centre-right. In order to win the top job in 2026, candidates will have to win over these coalitions as well as voters who are souring on polarising options.

Even right-wing candidates, who are vying for the votes of Mr Bolsonaro's base, show signs of moderation. The leading candidates of the right are governors who hail from well-run states, such as Tarcísio de Freitas of São Paulo, Ratinho Júnior of Paraná and Ronaldo Caiado of Goiás. They defend Mr Bolsonaro in public. Mr Freitas has even promised to pardon him if he wins. Yet in private, the governors insist that they are not Mr Bolsonaro's puppets and criticise his confrontational style.

Much could still go awry. Those on the hard right hope to win a majority in the Senate in order to neuter the courts and impeach Alexandre de Moraes, the supreme-court justice who has led investigations into Mr Bolsonaro. They could succeed: right-of-centre candidates swept mayoral races and Congress in recent elections. For now, however, most signs point towards at least a partial respite from the populist fever. ●

Pity the nation

Security may improve slightly in Haiti, but little else will

Hal Hodson Americas editor, *The Economist*

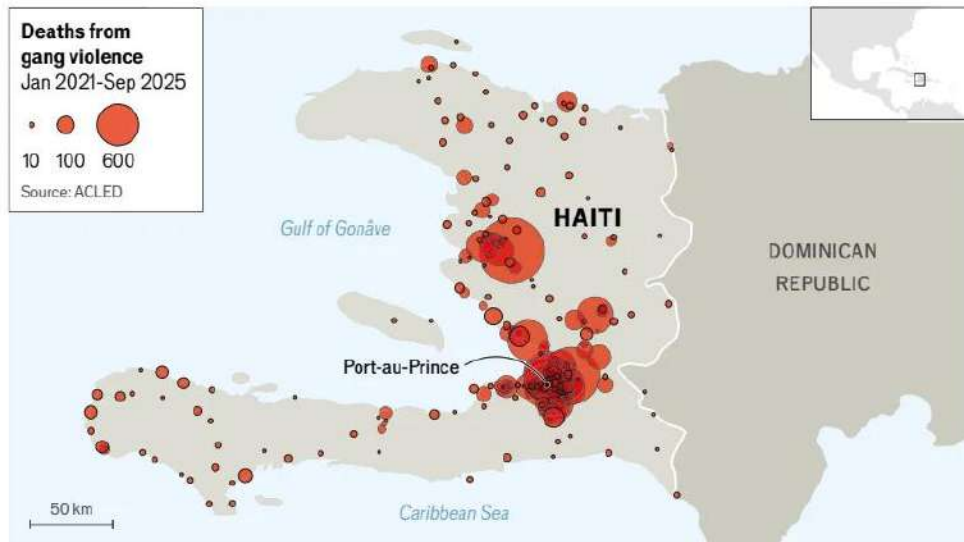
FOR THE past four years, since the assassination of President Jovenel Moïse in July 2021, Haiti has been slipping ever deeper into chaos and anarchy. In January 2023, the terms of the country's last ten sitting senators expired, leaving it with no nationally elected officials. In theory, Haiti is now run by a Transitional Presidential Council (TPC), an unelected body of politicians appointed by consensus in a process overseen by the Caribbean Community, an intergovernmental organisation.

In practice, it is run by gangsters. They control most of Port-au-Prince, the capital, as well as the routes in and out of the city, giving them a tight grip on the country. This slide into lawlessness has been stark, but upheaval is the norm for Haiti; since it won independence from France in 1804, the country has adopted a new constitution, on average, every eight years.

Expecting things to improve much in 2026 would be foolish. A security force of about 1,000 police officers, mostly from Kenya, authorised but not backed by the UN, completely failed to push back the gangs. They, alongside the Haitian police, have resorted to using bombs strapped to drones to target gangsters, often leading to horrifying collateral damage. Holding legitimate elections in these conditions is impossible. That means Haiti is extremely unlikely to inaugurate an elected president by February 7th 2026, as envisaged when the TPC was set up in 2024. Democracy is unlikely to return in the coming year.

Security might improve a little, however. On September 30th the UN Security Council (UNSC) approved a more muscular mission. This new "Gang Suppression Force" will have a maximum size of 5,550, and include a mixture of soldiers and police officers. The United States has intensively supported the new and expanded mission. In the days before the UNSC vote it said it would pull out of the Kenyan-led mission if the new mission was not approved. That may not necessarily make much difference on the ground, but the force may also benefit from a new UN logistics body created by





▶ the resolution, to help move troops, materiel and supplies into Haiti swiftly—all things that the Kenyan mission lacked.

Even if the gangs can be pushed back in 2026, Haiti will need help for a long time to

come. According to the UN, just under a fifth of the people in the country face starvation, which comes with acute malnutrition and significantly increased risk of disease. That is about the same

proportion as in Sudan, a country wracked by civil war. Some 10,000 people are suffering from famine. About 10% of children in Haiti are out of education, endless violence having forced their schools to close; 40% of all health-care facilities are shut. Cholera has been spreading in Port-au-Prince.

That may remind Haitians of the last time the UN sent thousands of troops to the country, after an earthquake killed around 200,000 people in 2010. Some 13,000 peacekeepers arrived to restore order in the aftermath. Seven years later they left in disgrace. More than a hundred of their number had committed horrifying acts of sexual abuse against Haitian children. They also managed to start a cholera epidemic from their latrines.

The memory of this failure may well be part of what prevents the UN from deploying a fully fledged peacekeeping force to Haiti now. Haitians are left hoping, once again, that foreigners can help bring their country into the light. ●

Strong man

Nayib Bukele strengthens his grip on El Salvador

Sarah Birke Bureau chief for Mexico, Central America and the Caribbean, *The Economist*

IN 2026 NAYIB BUKELE will consolidate his dictatorship. Still only in his early 40s, El Salvador's president has secured indefinite re-election by rewriting the constitution, having captured the country's institutions. Now, with Donald Trump back in power and praising him as a "great friend", he faces no international check.

Mr Bukele's takeover has been swift. After coming to office in 2019 he stacked the courts, tamed the security forces, secured a supermajority in the legislature and rewrote the rules of the game to suit his party. In 2021 his loyalist supreme court reinterpreted the constitution to allow a second term. Then in 2025 the legislature scrapped term limits altogether.

Mr Bukele was able to amass power more easily than some of his authoritarian peers because he is popular, and has also made deft use of the fight against gangs. A state of emergency, which will enter its fifth year in March 2026, lays aside much



↑ One among 85,000

due process. Some 85,000 people have been imprisoned, giving El Salvador the world's highest incarceration rate. The crackdown has delivered results (though evidence suggests secret pacts with gang leaders played a role). Official murder rates have plummeted, from 51 per 100,000 in 2018 to 1.9 in 2024, lower than in the United States. Extortion has fallen.

But in 2025 Mr Bukele, once keen to cultivate his public image, took off the mask and went after civil society. Ruth López, a prominent human-rights activist at Cristosal, an NGO, was arrested on a charge that few believe genuine. Law-

makers passed a "foreign agents" law that imposes a 30% tax and registration requirements on NGOs receiving overseas funding. Journalists at *El Faro*, an investigative outlet, fled abroad after the attorney-general prepared arrest warrants for them. Cristosal and others closed their offices. Farmers, transport bosses and environmentalists who voiced dissent were harassed or detained.

Mr Bukele is likely to become more brazen as a result of Mr Trump's backing. When Joe Biden was president, he faced criticism for his human-rights record; under Mr Trump he receives applause. (It helps that Mr Bukele jailed deportees from the United States in El Salvador's megaprison.) In April he was feted in the Oval Office, the only Latin American leader to receive such a welcome.

In 2026 observers will be watching to see whether Mr Bukele's open repression will cost him. The first test will be the economy. Growth has been falling; the IMF expects it to be only 2.5% in 2025, less than in neighbouring countries. Public debt stands at 88% of GDP. Poverty has climbed. Hospitals lack medicines and supplies. Mr Bukele's experiment with making bitcoin legal tender has lost its shine. Some investors are jittery. His agreement with the IMF for a \$1.4bn loan may entail spending cuts in health and education.

The second test is whether the president's popularity, which hovers around 80%, falls. Yet even if discontent spreads in 2026, it may not matter. Mr Bukele holds all the levers of power. In 2026 the country will look less like a democracy under stress than a dictatorship secured. ●

Global soundtrack

Latin American culture extends its influence worldwide

Sarah Birke Bureau chief for Mexico, Central America and the Caribbean, *The Economist*

SOUNDTRACKS, SCREENS and bookshelves will feature a Latin American flavour in 2026. The region's cultural industries, once thought peripheral, have become central to global entertainment. From Puerto Rico's Bad Bunny and Mexico's Peso Pluma topping charts in the United States to Netflix pouring billions into Mexican productions, the region's artists are winning audiences among Latin Americans, Hispanics in the United States and beyond.

Latin America is no newcomer to the exporting of culture. The novels of Gabriel García Márquez, a Colombian, and Mario Vargas Llosa, a Peruvian, enchanted readers in the 20th century. The "three amigos" of Mexican cinema—Guillermo del Toro, Alejandro Iñárritu and Alfonso Cuarón—have long been fixtures at the Oscars. Telenovelas have travelled from Mexico to the Middle East. What is different now is the breadth of their reach.

Latin America's 500m mobile users are some of the world's most avid social-media consumers, spending far longer on YouTube and TikTok than the global average. Another factor is the diaspora, especially in the United States, which is home to more than 60m Hispanics, nearly one-fifth of the population. Language learning is amplifying the effect. More than half a billion people are native Spanish speakers, and interest is growing elsewhere. When a Latin American song goes global, language apps report a surge in new Spanish learners.

And then there is streaming, which has made content more accessible worldwide. In 2025 Netflix pledged to spend \$1bn on productions in Mexico by the end of 2028. ViX, a Spanish-language platform owned by TelevisaUnivision, a media giant, is projected to be the fastest-growing streaming platform in the Americas in 2025.

Local producers in Mexico, Brazil and Colombia are creating films and television that win acclaim and screenings abroad. Narco dramas will remain popular, but other genres will also gain ground. "Under the Flags, the Sun", a Paraguayan documentary about the country's years of dictatorship, won prizes on the European festival circuit in 2025. Governments are helping in some places. Brazil reinstated rules in 2024 that oblige cinemas to show Brazilian films for a set number of days each year. In 2025 "I'm Still Here" won the Best International Feature Film at the Oscars, the first Brazilian-produced film to do so.



Latin America's cultural industries are central to global entertainment

Latin musicians will find even more success in 2026. The International Federation of the Phonographic Industry says Latin America was one of the fastest-growing recorded-music markets in 2024. Latin music generated \$1.4bn in sales in the United States that year, with regional Mexican music now the most lucrative sub-genre. Bad Bunny is a global star, and will play the half-time slot at February's Super Bowl (much to Donald Trump's chagrin). The likes of Peso Pluma, Karol G and Bizarrap are reliable hit-makers. And Anglophone pop will be on the receiving end, too: the three-three-two *tresillo* rhythm of reggaeton has seeped into hits of artists such as Ed Sheeran, a British singer-songwriter.

Books are joining the surge. Latin American authors are winning more prizes and being translated by publishers in Spain and the United States, who are eager to capture new voices. Mexico's Fernanda Melchor and Cristina Rivera Garza have already found international acclaim. Mariana Enriquez, an Argentine writer of gothic tales, has gained a global reputation.

Even podcasts have begun to cross borders. "Caso 63", a Chilean sci-fi drama, has been adapted into Portuguese, Hindi and now an English version starring Julianne Moore and Oscar Isaac.

Visual art from the region is gaining fresh momentum, too. Museums in New York, London and Madrid are devoting more space to Latin America, and Art Basel Miami Beach has become a showcase for its galleries. Younger names such as Oscar Murillo, Adriana Varejão and Tania Candiani are joining global circuits like the Venice Biennale. In 2026 Latin America will not merely add colour to global culture but will help to shape it. ●

By Invitation

The age of variable geometry

THE INTERNATIONAL system has been ruptured. Russia's invasion of Ukraine, gridlock at the UN, growing American mercantilism and paralysis at the World Trade Organisation (WTO) have all contributed to the breakdown of the post-cold-war order of multilateral institutions, rules and conventions.

The security, prosperity and resilience the old system delivered depended heavily on the commitment of its core, the United States of America. As that indispensable nation has adjusted its commitments to global institutions, the fragility of the post-cold-war system has been revealed.

To re-establish resilience, a new web of ad hoc co-operation is beginning to emerge. We are entering an era of "variable geometry" characterised by dynamic, overlapping, pragmatic coalitions, built around shared interests, and occasionally shared values, rather than shared institutions.

It may seem unusual to apply a hard engineering term to the soft arts of foreign policy, but each discipline is designed to build. And in the world of international affairs, a term that describes mechanisms that can adjust to changing environments is an apt description and a useful guide to action.

A prominent example of variable geometry is the "coalition of the willing"—the ad hoc group of nations which has come together to support Ukraine. NATO and the allies that comprise it have provided extraordinary support to Ukraine in its self-defence against Russian aggression, but NATO is unsuited to the task of providing post-conflict security guarantees, as is the UN. In contrast, the impact of a bespoke, rapidly assembled alliance has been impressive. In

The world has entered a new age of variable geometry, argues Mark Carney, prime minister of Canada



just six months, the coalition of the willing has begun planning for boots-on-the-ground support in anticipation of a ceasefire, which would have been impossible in larger multilateral forums.

In Europe, the new SAFE pact unites nations determined to fast-track defence procurement. By cutting through bureaucracy and pooling procurement, SAFE will enable partners to buy and build together at speed. This accelerates capability development, bolsters national defence industries and

The twilight of multilateralism will be followed by the rise of plurilateralism

expands strategic autonomy.

To address the risks of sudden disruptions to global trade in critical minerals, Canada is bringing together like-minded nations to form a critical-minerals strategic alliance. The goal is to secure and diversify supply chains by investing in mining, stock-piling supplies and developing standards-based markets to guard against future shortages.

Expect such purpose-built alliances to continue to proliferate. Even when their webs of connection are small, these groups can have outsize impacts by cutting through bureaucracy, moving fast and reinforcing shared strategic interests. Difficult times require pragmatic responses. Countries that might not normally be considered

"like-minded" will increasingly co-operate where they share specific goals and values on specific issues. For example, the new climate architecture could be an amalgam of trade rules anchored by the EU, technology standards centred in China and India, and nature-based solutions grounded in Brazil.

Instead of a single, reformed rules-based trading system, a mosaic of partial agreements and creative "docking" arrangements between blocs could develop. One option would be to bring together two of the world's largest trading blocs, the EU and the Asia-centred CPTPP. Reaching consensus to reform the WTO could take decades. But bringing together groups of countries that share a belief in free trade—grounded in basic standards for labour, the environment and data sovereignty—will be a faster way to make progress.

Though the growth of variable geometry risks fragmentation, duplication and potential inequities for those left outside these clubs, such concerns should be outweighed by the benefits of speed, adaptability and impact. These coalitions could ultimately prove more resilient to future shocks than the current hub-and-spoke system that is only as strong as its core. Variable geometry need not be static: successful coalitions will attract new joiners.

Nostalgia is not a strategy. We should not pine to go back to the world that was. We should focus on building something better. The twilight of multilateralism will be followed by the rise of plurilateralism. States that embrace variable geometry, weaving new networks and constructing pragmatic alliances, will be best placed to thrive in this new age. ●

Asia



You can trust us, says China

Compared with Donald Trump, Xi Jinping looks like a more reliable trade partner

Aaron Connelly Asia diplomatic editor & Singapore bureau chief, *The Economist*

IN LATE 2026, Xi Jinping will host a grand gala dinner for the leaders of just over three-fifths of the world economy. The Asia Pacific Economic Cooperation (APEC) summit, to be held in China for the first time since 2014, will cap a turnaround for China's reputation. Mr Xi wants the world, and particularly Asian countries, to see China as their most reliable economic partner, in implicit contrast to the uncertainty surrounding trade with President Donald Trump's America.

Already China showed flashes of this strategy in

2025. At the end of October, it signed an upgrade to its free-trade agreement with the Association of South-East Asian Nations (ASEAN). That China was able to get South-East Asian countries to agree to this was remarkable. They have been blaming China for undercutting their own manufacturers by dumping low-cost goods in the region. The new deal will actually make it harder for South-East Asian countries to block China from exporting its excess capacity.

But in a world in which America has become the central source of geopolitical risk, smaller countries have few alternatives. Compared with Mr Trump, Mr Xi looks like a far more reliable economic partner. In the coming year, China hopes to sign new trade deals with Gulf states, Switzerland and South Korea. In June 2025, Mr Xi announced unilateral reductions in duties for imports from Africa. Just months later, Mr Trump abandoned a programme that had offered African countries access to American consumers in exchange for implementing free-market policies.

A more ambitious goal for China is membership of the Trans-Pacific Partnership, a grouping that Barack Obama once hoped would shift the region's centre of economic gravity away from China and towards America. Mr Trump withdrew from the deal on the first day of his first term. Japan and Australia are reluctant to even consider letting China in, having been the targets of Chinese economic coercion in recent memory. But as trade barriers go up around the world, their determination may waver. By the end of 2026, China could be on the way to getting in. ▶▶

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WHAT IF?

In September Indonesia's president, Prabowo Subianto, gave in to protesters' demands and slashed MPs' compensation. Protests eased, but now MPs have been given another generous allowance.

What if more protests pushed Prabowo to declare martial law? Some advisers want a tougher approach, but the move would send the country into crisis.

Key to the success of its economic diplomacy will be how China handles APEC. The organisation, made up of 21 countries, usually flies under the radar. Set up in the halcyon days of the early 1990s to liberalise trade across the Pacific, its free-trade mission foundered during the Asian financial crisis of 1997 and never recovered. Most years, it ambles on merely as an annual forum where national leaders can meet to talk about the economy, and is one of the few that the American and Chinese presidents regularly attend.

But APEC kicks into high gear when it is hosted by a big economy like China. Hosting means chairing dozens of meetings on economic policy in a given year, and chairs set the agenda. Big countries often use it to push their preferred economic model. China's economic mandarins have yet to reveal how they plan to take advantage of the agenda in 2026, but there is little doubt that they will seek to tighten ties between members' economies and their own, just as America is cutting them.

An ambitious goal for China is membership of the Trans-Pacific Partnership

China might try to woo APEC members, and countries farther afield, by drawing distinctions with the Trump administration in two areas in particular: artificial intelligence and climate change. Whereas America has boasted about "winning the AI race", China's AI diplomacy has presented the technology as offering a leg-up for countries in the global south. On climate, too, China has played the responsible party, offering modest emissions-reduction targets that nonetheless look attractive compared with Mr Trump's declaration that global warming is a hoax.

America could yet play spoiler. Mr Trump's threat to slap a 40% tariff on "trans-shipped" goods remains woolly. There is no set definition of trans-shipment. But some analysts think that if trade relations between China and America deteriorate in 2026, Mr Trump could use that mechanism to go after countries that have struck new trade deals with China. That would only further diminish America's reputation as a reliable economic partner. ●

New direction?

Bangladesh hopes to finally hold free and fair elections in 2026

Vishnu Padmanabhan Asia correspondent and news editor, *The Economist*

WHEN MUHAMMAD YUNUS took charge of Bangladesh's caretaker government in late 2024, he promised a national rebirth. The microcredit pioneer and Nobel laureate was appointed as the country's interim leader after student-led protests toppled Sheikh Hasina, the prime minister, and her party, the Awami League. For 15 years she had run the country of 170m with increasing despotism, gutting its institutions and depleting its reserves. Her downfall was celebrated, in Bangladesh and beyond, as a triumph for democracy. The coming year will be pivotal in shaping the country's future.

The new dawn was soon clouded by uncertainty. Bangladesh spent much of 2025 in political limbo. After months of delay, the interim government finally revealed a package of democratic reforms in October, but doubts linger over its implementation and legality.

More troubling is the risk of another cycle of political retribution. Politicians and the public have made it very clear that they want some accountability for the Awami League's excesses. But NGOs have accused the interim government of

unfairly targeting Awami supporters, many of whom have been locked up. It has also banned the party from political activity on national-security grounds, in a move that recalls the vengeful style of politics that has long plagued the country.

The good news is that in early 2026 Bangladesh may finally get an election. That would be a victory in its own right. The previous one, in 2024, was deemed a sham by most international observers, featuring almost no opposition candidates and voter turnout of around 40%.

Bangladeshis hope the vote will herald a period of stability. But there are fears a new government could bring back old problems. Leading in the polls is the Bangladesh Nationalist Party, which faces allegations of corruption. Also prominent is the Jamaat-e-Islami, an Islamist group accused of indulging extremists.

Whoever wins will inherit formidable

economic challenges. The once-booming garment sector has been hit hard by American tariffs. Unemployment is a big problem, especially among the young.

On foreign policy, too, tough decisions loom. Under Mr Yunus, Bangladesh has lurched towards China, signing deals on trade, infrastructure and defence. This has angered India, traditionally Bangladesh's strongest ally. Closer to home, the new leaders will need to tackle a humanitarian crisis as Rohingya refugees from Myanmar's civil war continue to flow into the south. Bangladesh's capacity and patience to host them are wearing thin, especially after America's cuts to aid.

After the country won independence in 1971, the joy from the birth of a nation was snuffed out within four years by a military coup. Bangladeshis are hoping that the optimism and promise of this second birth will last much longer than that. ●



↑ Street politics

Head count

MUMBAI

India's forthcoming census will be consequential—and controversial

Leo Mirani Asia correspondent, *The Economist*

HOW DO YOU count to 1.45bn? Start with 3.5m. That is the number of people who will knock on doors, compile spreadsheets and crunch data to conduct a new census in India, the world's most populous country. It is a colossal undertaking. Enumerators will venture into deserts, trek into jungles and climb soaring mountains to reach remote villages. The formidable task will be accomplished by breaking it up into phases: in April 2026 officials will collect data on every dwelling in India. The actual count of humans will begin in a handful of states and territories in October. The rest will follow in March 2027.

Like most countries, India usually conducts a census once a decade. But covid-19 disrupted plans for the 2021 edition and various excuses were offered for further delays after the pandemic receded. A full 16 years will have elapsed by the time the new census is completed. In the interim, hundreds of millions of Indians have risen from poverty, mobile broadband has blanketed the country and average incomes have doubled. All of that alone makes this count unusually important. But additional demographic and political factors make it the most consequential census since independence. It will reshape the country for decades.

The most anticipated effect is a boost in the quality of governance. Census figures form the bedrock of policymaking. Without up-to-date numbers, it is difficult for governments to target welfare schemes, essential services, infrastructure-building and much else that a poor and fast-growing country like India needs. Fresh figures should enable the central and state governments to vastly improve the design of their policies. New data may also provide evidence of the material improvements that Narendra Modi, India's prime minister, claims to have brought to people's lives since he took power in 2014.

Less predictable, but potentially far more momentous, will be the release of numbers about caste. India has an elaborate system of caste-based affirmative action and its politics is still dominated by caste coalitions. Yet no one has any idea how many people belong to which caste and where. For the first time since independence, the census will ask people about this sensitive subject. The results will produce winners whose numbers have grown, and who can thus demand a greater share of the pie, and losers, who cannot. That could rewrite the rules of Indian politics.

The census will also be the trigger for another form of affirmative action. India has mulled quotas for



women in national and state legislatures for three decades. Although the country had a female prime minister as far back as the 1970s, the overall representation of women in politics remains poor. Only 14% of lawmakers in the current parliament are women, and about a tenth in state assemblies. That is set to change. In 2023 India's parliament amended the constitution to reserve a third of its seats and those of state houses for women, with effect from the first election after the census. Some worry that powerful male politicians will game the system by installing wives or daughters, but quotas will boost women's representation at the highest levels of Indian politics.

The final and potentially most significant effect of the census is still unconfirmed, but widely expected. India is supposed to redistrict its parliamentary constituencies after every census. But this process was put on hold after 1971 to avoid penalising states that fared well in controlling their population. The result is a lopsided system where some lawmakers represent 3m people, while others represent half as many. The redistricting pause expires in 2026 and all indications are that the government intends to redistribute seats (and may increase their overall number, too).

That would enable India's cities, which function as its economic engines but wield almost no political power, to demand more attention and funding. And the richer, more progressive but less populous southern states would cede political power to the poorer, more populous north. Pundits say this would cement the dominance of Mr Modi's Bharatiya Janata Party, which is popular in the north and a near nonentity in the south. Yet it is hard to argue against redistricting: a democracy where one vote is worth twice as much as another is unworthy of the name.

The forthcoming census, then, will transform how power is distributed in India by caste, gender, culture and geography. It will really count. ●

This will be the most important census since independence

Blood but no soil

The world's first climate refugees will arrive in Australia in 2026

Sue-Lin Wong South-East Asia correspondent, *The Economist*

AUSTRALIA WILL receive the world's first officially recognised climate refugees in 2026. The arrivals, from Tuvalu, are the product of a bilateral treaty that could redefine sovereignty, as climate change causes deadly levels of warming that threaten island nations.

Under the Falepili Union treaty signed in 2023, up to 280 Tuvaluans can permanently migrate to Australia each year to live, study and work. The tiny country of 11,000 people, perched halfway between Australia and Hawaii, represents a test case for how governments will respond as climate change drives displacement. The 280 migrants selected in the first ballot—one-third from Tuvalu itself, the rest from diaspora communities—represent more than just individual stories of relocation. They embody an attempt to untether statehood from territory.

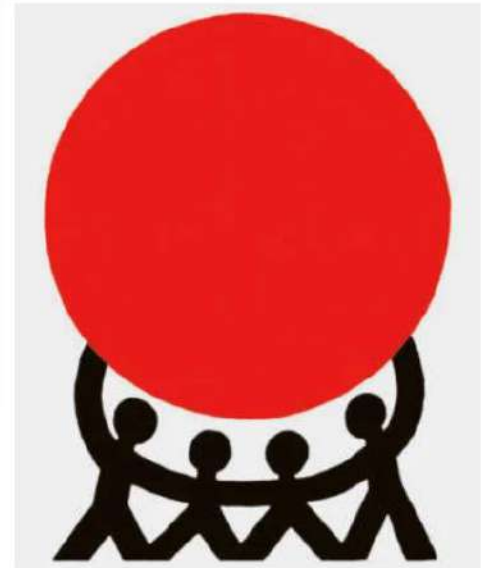
Under conventional international law, sovereign nations need a permanent population on clearly defined territory. But Tuvalu has negotiated a treaty saying that even if it loses its physical territory to rising seas, it will retain its UN vote and its vast exclusive economic zone, a tuna-rich

patch of ocean that sustains its budget. So far, around 25 countries including Australia and New Zealand have recognised this new definition of sovereignty. But resistance remains strong among major fishing nations. Given that foreign fishing fleets pay Tuvalu around \$30m a year in licence fees—its largest source of revenue—the stakes are high.

Legal opinion is shifting in Tuvalu's favour. In June the UN International Law Commission declared that states should retain statehood even if their territory disappears under water. A month later, the International Court of Justice ruled that countries may be violating international law if they fail to limit warming to 1.5°C, in a case brought by Vanuatu.

Migration is only one part of the Falepili Union treaty. Tucked into its text is a security clause requiring Tuvalu to seek Australia's approval before making any security deals with other countries. This reflects Australia's rivalry with China in the Pacific. The clause stirred unease in Tuvalu, leading to an explanatory memorandum clarifying that Tuvalu could suspend provisions or terminate the treaty if Australia abused its role.

As the first climate migrants settle into their new Australian homes in 2026, Tuvalu will face an unintended consequence: accelerating brain drain. The government, the country's largest employer, has struggled to fill 300 civil-service vacancies among its workforce of 1,000. While many Tuvaluans want the migration quota increased, their government wants the cap of 280 to prevent further flight of talent. Other island countries are watching. As the waters rise, governments must weigh the benefits of securing their citizens' safety overseas against the risk of hollowing out institutions and losing rich cultural heritage at home. ●



Family planning

TOKYO

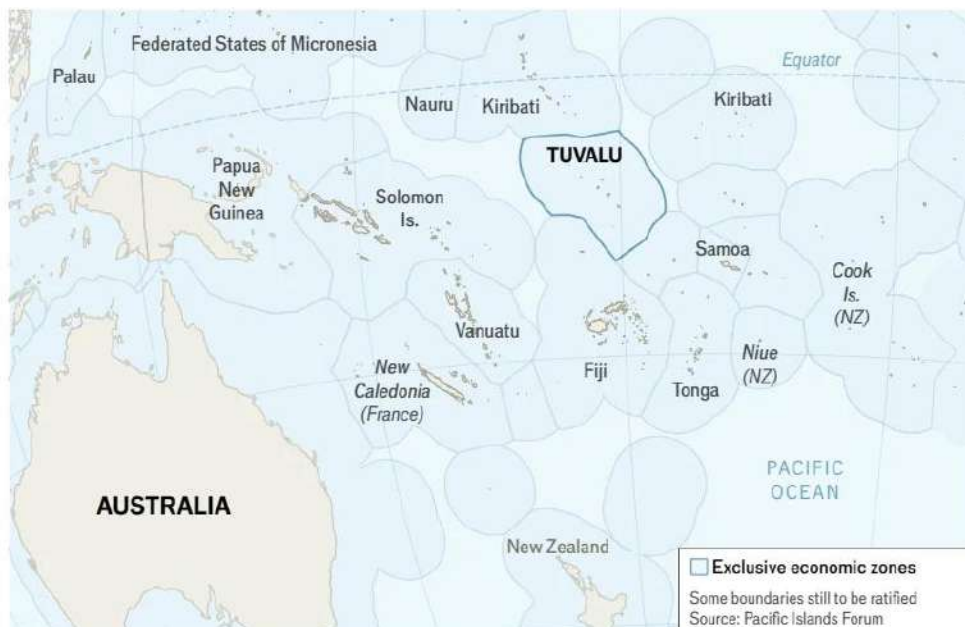
Japan is finally discussing what a family can be

Moeka Iida Tokyo reporter, *The Economist*

AS THE IDEA of what constitutes a family changed dramatically in much of the developed world in recent decades, Japan lagged behind. But in the past few years the shape of the Japanese family has begun to change. The traditional ideal of a male breadwinner and a female home-maker is becoming increasingly outdated. As the share of women in the workforce has surged, men are getting more involved at home. In 2025 the share of fathers taking paternity leave exceeded 40% for the first time, up from just 5% in 2017. Further change is coming in the year ahead.

Take the issue of custody after divorce. Japan still allows only sole custody of children. One parent, usually the father, loses the legal right to see the child after divorce. That has drawn fierce criticism, at home and abroad. Media outlets have featured angry, desperate fathers staging public protests to demand access.

That will change in 2026. A revision to the country's civil code—the first such change in 77 years—was decided in 2024 and will take effect in the coming year, allowing divorced parents to have joint custody. The goal is not only to end estrangement. It is also to tackle Japan's grim record on single-parent poverty. Less than 30% of divorced mothers get child-



▶ support payments from their former husbands, and nearly half of single-parent households live in relative poverty. Lawmakers hope that keeping fathers connected to their children will encourage financial responsibility.

Even so, much of the opposition to the reform has come from women's-rights groups, who argue that the law could endanger single mothers who have fled abusive marriages by forcing them to maintain contact with controlling or abusive ex-husbands. But many believe it is a step in the right direction, giving much-needed flexibility. It is an acknowledgment that traditional ideas of family, and the laws built on them, no longer reflect how many people live.

The election in October of Japan's first female prime minister, Takaichi Sanae, is a victory for gender equality in a country where women have long been under-represented in business and politics. But her ascent does not signal a broader liberal turn. A social conservative, she opposes allowing married couples to keep separate surnames. Under the current law, which requires couples to share a single name, 95% of women take their husband's.

Conservatives argue that changing this law would create conflict between couples, confuse children and erode family unity. But the gap between politics and public sentiment is widening. Polls show that a majority of voters think the current rule is outdated. Most opposition parties, and even some members of the ruling Liberal Democratic Party, favour a change.

Despite political inertia, Japan is finding other paths to reform. Same-sex marriage is another front where pressure is mounting. It is still banned in Japan, but most municipalities nevertheless offer "partnership systems" that symbolically acknowledge gay couples. More than 9,000 couples have registered under such schemes, evidence that social attitudes and local governments are well ahead of national politicians. Courts, too, are outpacing lawmakers. In March 2025 a high court declared the ban unconstitutional—the fifth such ruling. A supreme-court decision is expected in 2026. If it rules against the ban, lawmakers will come under pressure to act. In Japan, where political reform is often glacial, litigation is one of the few reliable routes to change.

Some hope these reforms might even help address one of Japan's biggest challenges: its low birth rate. Demographers argue that allowing families to form in more flexible ways could help lower the barriers to partnership and parenthood. In 2026 Japan will not resolve the tension between tradition and modernity. But it will become harder to pretend that the nature of the family remains unchanged. ●

Barrelling ahead

Can Vietnam maintain the pace of its domestic reforms?

Ethan Wu Asia business and finance editor, *The Economist*

VIETNAM WILL not quite meet its ambitious 8.3% growth target for 2025. But it may come close. Output rose by 8.2% year-on-year in the third quarter of 2025, though it would need to rise by nearly 10% in the fourth quarter to hit the target. Vietnam's economy is roaring ahead. Yet To Lam, the hard man who took over as Communist Party chief in 2024, is not sitting back. He sees an economy whose export model may have had its day, and he is barrelling ahead with radical reforms.

In May, Vietnam issued Resolution 68, recasting the private sector as "the most important driving force" of the economy and aiming to boost its size. The new law promises easier access to land, capital and regulatory permissions for private firms. It aims to empower smaller businesses, as well as spurring conglomerates to compete abroad. A range of other initiatives are in motion, too, from supercharging Vietnam's R&D capacity to transforming the port city of Da Nang into a global financial hub.

Perhaps most importantly, Mr Lam has directed Vietnam's bureaucrats to move with haste. Too often in the past their aversion to risk has stood in the way of

dynamism. He has abolished five ministries and eliminated an entire layer of the bureaucracy. He is reducing the number of provinces from 63 to 34. The civil service is set to shrink by 100,000 jobs.

The new leader's urgency has begun to bear some fruit. After falling in 2024, spending on infrastructure soared by 40% year on year in the first half of 2025, notes Michael Kokalari of VinaCapital, an investment firm in Ho Chi Minh city. That suggests a speeding-up of approvals. Investors will be watching closely whether the trend continues, after a \$49bn infrastructure and housing push was announced in August.

Two deeper questions remain. One is whether Vietnam's progress will be waylaid by Donald Trump. America, where Vietnam sends 30% of its exports, has raised tariffs and launched a campaign against the re-routing of goods through third countries. In 2026 the scope of this trans-shipment crackdown will become clearer. If it means a tougher line on the worst customs-law violators, Vietnam can probably muddle through. But if it means America trying to wring Chinese inputs from supply chains, Vietnam could find itself caught between the superpowers.

Second, Mr Lam has not yet shown how much state control he is willing to cede in the name of reform. Powerful conservative factions oppose liberalising too quickly. The trade-off between control and dynamism extends to the private sector, too. Conglomerates are handy for the state, lending it a whip hand over private firms.

Though he has centralised power, Mr Lam's position will be tested at a party conference in January. Some cadres may be rattled by how their leader has slimmed the bureaucracy. For his necessary revolution to take root, he will need to persuade them that Vietnam is on a better path. ●



↑ *Where the rubber hits the road*

By Invitation

What AI means for India—and India means for AI

USING A BASIC feature-phone, a Marathi-speaking farmer can now consult a chatbot for advice on soil, seeds and irrigation, and receive local guidance in his own language. The potential is clear, but so is the risk: a mis-translation or a bad recommendation can have costly consequences. For artificial intelligence to work at this scale, its answers must rest on credible, accountable sources whose authority can be traced and verified. In India, this includes agricultural universities, co-operatives and government departments. Safety, in this context, means technical reliability coupled with institutional accountability.

The adoption of AI in India has been rapid, with millions of users regularly using AI applications. Yet the real test lies not in numbers or downloads, but in whether India can turn the opportunities of AI into safe, inclusive growth that benefits everyone.

India's digital public infrastructure provides the model. Its shared digital rails were built by the state but opened up for private-sector innovation. Aadhaar, the national biometric-identity platform, now covers more than a billion people. The Unified Payments Interface processes around 20bn transactions each month. Together, they show how technology can scale up and serve real needs. In 2026, the principles that shaped this digital infrastructure—openness, interoperability, inclusion and co-creation—should also guide the development and use of AI, to ensure it remains human-centred and trustworthy.

Safety in India is not an abstract concept. When the monsoon is delayed, people want to know who stands behind a recommendation.

To work at scale, AI must be trustworthy and human-centred, says Nandan Nilekani, co-founder and chairman of Infosys



Citizens tend to trust institutions rather than algorithms. If AI is to be adopted by the whole population, it must carry the credibility of trusted institutions, with traceable sources and advice that can be questioned or corrected. That means embedding safeguards right at the foundation: knowing how models are trained, checking the interpretability of outputs, and using sandboxes to test systems before deployment. India should set benchmarks that reflect its linguistic and

India's greatest contribution may be to prove that AI can improve everyday lives

cultural realities, alongside frameworks for data exchange and interoperability. Such measures create the conditions for institutions to trust AI.

Indeed, India's greatest contribution may come from proving to the world that AI can improve everyday lives when linked to real needs. Trust drives adoption, and adoption provides feedback that improves systems.

Many examples show how this can work. Researchers from AI4Bharat, a laboratory at the Indian Institute of Technology Madras, worked across 400 districts, collecting over 12,000 hours of recorded speech, 783m translated sentences and data from nearly 2,000 field-workers in all 22 of India's official languages. The resulting open data-sets have

improved accuracy and inclusion in India's AI ecosystem, giving it a linguistic base unmatched elsewhere.

Bhashini, the government's AI-powered language platform which provides translation, transcription and other services, is used by more than 300m people. AXL, an education platform from the EkStep Foundation, provides personalised literacy and numeracy support for millions of students in government schools. And in Maharashtra, MahaVISTAAR provides voice- and text-based agricultural advice in Marathi for more than 15m farmers.

India's earlier digital successes with payments and digital identity worked because services and information could move freely across open rails. AI needs to work the same way, allowing models to be swapped, data to be verified and services to be seamlessly combined. Interoperability, not just sheer scale, is what converts isolated success stories into a national ecosystem. Sustained adoption depends on embedding AI into everyday workflows.

India has become one of the largest markets for the world's leading AI firms. It is also the place where the technology's possibilities and limits are most visible. I invite global companies, academics and innovators to test their systems in India in 2026—at national scale, with safety, interoperability and accountability built in. Done right, adoption here will not only improve public services, but also enrich the science of AI itself, through feedback from hundreds of millions of users.

The hardest places to make artificial intelligence work are also the places where it matters most. If AI can serve India's classrooms, clinics and farms, it can serve the world. ●

China



China's global opportunity

American isolationism is helping China increase its influence

David Rennie Geopolitics editor and The Telegram columnist, *The Economist*

STRIP AWAY the fine words about peace and solidarity, and China's core offer in 2026 to countries being bullied by President Donald Trump is this: "You know where you are with us." But that promise of predictability cuts both ways.

Countries that know China best—its neighbours and those reliant on its trade—know it as an unsentimental giant, bent on returning to the pinnacle of global power and increasingly willing to use its dominance in some sectors, such as the production of rare-earth minerals and permanent magnets, to coerce

and intimidate foreign rivals. Chinese officials and state-backed scholars talk publicly of the need to dominate global manufacturing for decades to come. They call for a "realist" international order that offers "universal security" rather than universal values.

China does not deny being guided by self-interest, and is willing to show its strength. Still, it argues that its steely focus on economic development makes it a reliable—if occasionally alarming—partner in these troubled times, unlike the mercurial, chaotic Mr Trump. That does not mean that China proposes to fill every vacuum, or to supplant America as a global policeman. On the contrary, its diplomats deplore Western governments that use sanctions, military interventions or defensive alliances to uphold an "international rules-based order" that China calls a cover for Western liberal values. What China is offering in the developing world is its familiar mix of economic investments, loans, trade, infrastructure-building and vocational training, all on Chinese terms.

To prominent Chinese scholars of international relations, the second Trump presidency is a chance to notch wins in a global "narrative war". America's policy shifts have opened up numerous opportunities for China to increase its influence. Three stand out.

The first is clean tech. In his first presidency, Mr Trump was a sceptic about climate change and renewable energy. Since his re-election, he has cut subsidies for green technologies and berated foreign governments for shunning fossil fuels. Enter China, already a dominant provider of solar panels, wind

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WHAT IF?

After Xi Jinping came to power in 2012, China built seven military bases in the South China Sea, but it left Scarborough Shoal, claimed by the Philippines, untouched. Recently, it has increased activity there. **What if China tries to build a military base on Scarborough Shoal?** That could invite a stand-off with American forces bound to defend their Philippine allies.

turbines and advanced batteries, and an expert in building the smart electrical grids needed to knit green technologies together.

Then there is Africa. In 2025 Mr Trump slapped 30% tariffs on South Africa, while Republicans in Congress threatened to curb tariff-free access offered to the poorest African countries under the African Growth and Opportunity Act. Right on cue, China extended tariff-free access to imports from 53 African nations, though many African governments mutter about unbalanced trade relationships, built on selling China raw materials in exchange for finished goods.

Third is India. During Mr Trump's first term and the Biden administration, India edged closer to America, spurred by a shared wariness of China. That wariness was deepened by border clashes between Indian and Chinese troops. Yet in his second term, Mr Trump has demeaned India's prime minister, Narendra Modi, and imposed punitive tariffs for buying Russian oil. In September Mr Modi went to China to join Russia's president, Vladimir Putin, at a gathering

The Trump presidency is a chance to notch wins in a global "narrative war"

hosted by China's ruler, Xi Jinping. It brought together leaders of a regional grouping that India regards with suspicion, the Shanghai Co-operation Organisation. But Chinese scholars noted that Mr Modi's embrace of their country had limits. As well as declining to join other foreign leaders in Beijing for a military parade to mark the 80th anniversary of victory over Japan, Mr Modi pointedly visited Japan en route to China.

Mr Trump's unpredictability is thus helping China in its contest with America for global influence. China's risk-averse diplomats may struggle with Mr Trump's freewheeling statecraft. Mr Xi does not make policy on the fly. But strength matters more. At a Trump-Xi summit in South Korea in October 2025, Mr Trump lowered tariffs in exchange for China agreeing to buy soybeans and advanced chips from America, and to sell rare earths: all trades that suit China.

Mr Xi has learned how to play Mr Trump, but his ideal outcome would be to need him less. China sees Mr Trump as a sign of American decline. It does not want to be dragged down by him. ●

Green, fertile and high-tech?

What to expect in China's next five-year plan

Gabriel Crossley China correspondent, *The Economist*

THE COMMUNIST PARTY'S 15th five-year plan since taking power in 1949 will be released at a meeting of the rubber-stamp parliament in March (the details having been thrashed out well in advance by party leaders). It will set the tone for China's government from 2026 to 2030. Last century China's five-year plans were all about ambitious production goals for mills and mines. These days the plans are more vague. But they are still important. Officials at every level of government will use the plan to guide their actions.

The plan's contents are still uncertain, notably how it will guide China through the tricky economic situation it finds itself in, which includes deflation, a property crisis and flagging consumption. But some things are almost guaranteed to feature.

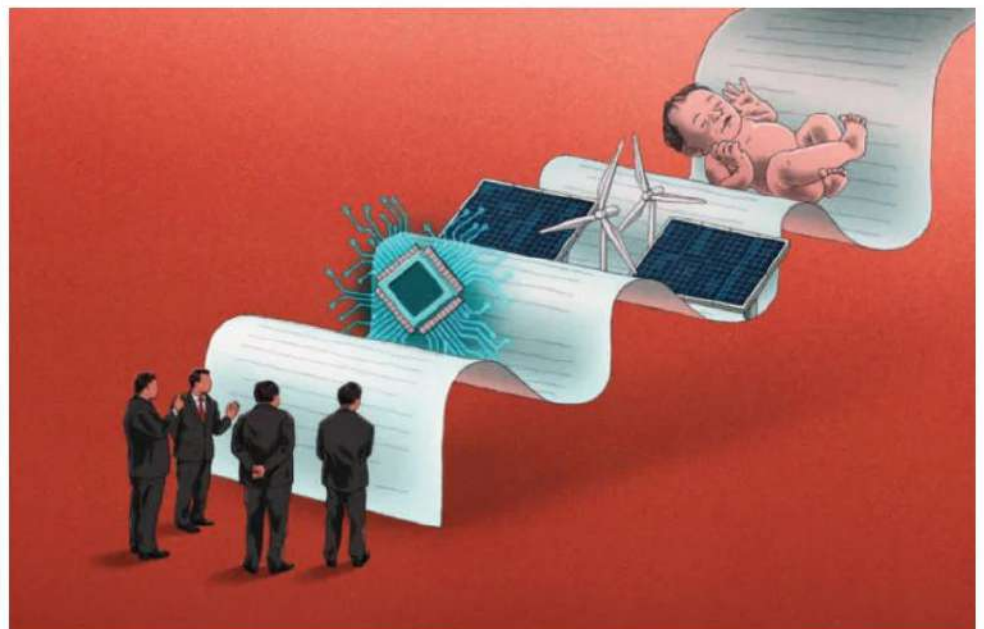
One focus will be on breaking through what officials call technological "strangleholds". Chinese firms are good at making high-tech kit. But they are still reliant on foreign know-how or suppliers for such things as semiconductors, aircraft engines and industrial robots. Officials see this as a big vulnerability (America has for

years banned the export of its most advanced chips to China). So they are doubling down on technological self-reliance. To this end the plan may lay out ambitious goals for everything from university science funding to industrial R&D spending and the integration of artificial intelligence into education.

Another concern will be the environment. China has already committed itself to bringing its carbon emissions to a peak by 2030. But it may have already achieved that goal, with emissions projected to edge down in 2025, from a peak in 2024. To continue to push them down, the plan may lay out targets for lots of clean-energy projects, and big investments in China's grid. The stated goals will probably underwhelm, however. China has a history of underpromising and overdelivering when it comes to the

climate: a goal set in 2020 of installing 1,200 gigawatts of wind and solar power by 2030 was achieved in 2024.

Perhaps the toughest challenge that the plan will tackle, however, will be the country's plummeting fertility rate. China's average number of births per woman has fallen to 1.1, far below the stable 2.1 "replacement rate". Its total population has fallen for three years in a row. But state-run media are optimistic that things can be turned around, claiming that the 15th five-year plan could turn China into a "truly family-friendly society". Possible strategies include more generous handouts—parents already get 3,600 yuan (\$500) a year for each child under the age of three—and more nursery places. China's leaders will probably be satisfied if the population is not too much smaller by the end of the plan than at the beginning. ●



The slowdown continues

Whatever happens with trade, China's economy will slow in 2026

Simon Cox China economics editor,
The Economist

THREE QUESTIONS loom over China's economy in 2026. Will retail sales suffer from a period of "payback", as consumers refrain from replacing cars, phones and appliances upgraded in 2025 with the help of government subsidies? Will the trade war with America throw the economy off course? And will the property market, ailing since 2021, recover? The answers will determine whether China can sustain its recent pace of growth.

Start with consumers. China's leaders are often accused of favouring manufacturing at the expense of consumption. But many manufactured items are, of course, also consumer goods. In 2025 the government tried to kill two birds with one stone by expanding a trade-in scheme for cars and appliances, like the "cash for clunkers" initiatives popular after the global financial crisis of 2007-09. Households could receive up to 2,000 yuan (\$280) to buy new fridges, microwaves, smartphones and even "smart" toilets. This was so popular that some provinces ran out of money ahead of schedule, forcing them to wait for the next instalment of funds from the central government. Sales of consumer durables took off (see chart).

The worry, however, is that many of these purchases would otherwise have taken place in 2026. Households that have shelled out in recent months are unlikely to replace goods in the year ahead. How often do you need to smarten up your toilet? Retail sales in 2026 could thus suffer from payback, falling below even their pre-subsidy level. That danger may force the government to renew the scheme for another year. But consumption will still probably grow more slowly.

If consumption does flag, Chinese firms will look again to overseas markets to fill the gap. That could worsen trade tensions with countries flooded with Chinese goods. The trade war with America could also flare up again if the truce agreed in South Korea in October 2025 breaks down.

China would not relish another trade spat. Higher tariffs would deal a further blow to demand. But China has been successful so far in finding new markets for its goods to replace sales to America. And if exports did falter, the government could cushion the blow through additional fiscal stimulus. The trade war will determine how China meets its growth targets, not whether it meets them, as Larry Hu of Macquarie, a bank, has put it.

The uncertainty created by Mr Trump's trade war



↑ *Doom loop?*

has been blamed (unconvincingly) for snuffing out a tentative recovery in the property market. The government had promised to stop the market falling, raising hopes of a more decisive rescue effort. But those hopes have not been fulfilled.

A recovery will therefore depend on the slow grind of market forces. Thanks to falling prices and rising incomes, houses are becoming more affordable. A typical 100-square-metre flat cost 7.6 times the average household's income in 2021, according to Gavekal Dragonomics, a consultancy. That was down to 6.3 times by mid-2025. A growing cohort of people must also be tired of waiting for a bigger home or a place of their own. They will not want to wait for ever. And even if they are too nervous to buy, they could rent, which would also help the market.

So the answers to the three questions looming over China's economy are yes, no and maybe. Yes, consumption will suffer from payback; no, the trade war will not derail growth; and maybe, just maybe, the property market will bottom out. The result is that China's economy will slow but not stumble in 2026. ●

→ Appliance compliance

China, monthly household electronic goods sales*, yuan bn



Source: Haver Analytics

*12-month moving average

Not just Labubu

SHANGHAI

China's cultural exports are starting to boost its soft power

Don Weinland China business and finance editor, *The Economist*

“SOUTH PARK”, a foul-mouthed adult cartoon, is an American cultural treasure that has disgusted and delighted audiences for nearly 30 years. An episode in September 2025 featured a newcomer to global culture: the Labubu, a grimacing doll, designed and made in China, that has become a worldwide sensation. “South Park” was unkind to the Labubus, portraying them as demonic. But the episode was a win for Chinese pop culture, underlining the extent to which its creativity is making its way into mainstream Western consciousness.

For the world's second-largest economy, China has punched far below its weight in creating cultural products that resonate beyond its borders—so-called soft power. The country's leaders harp on about their rich cultural heritage, bestowed upon them by at least 5,000 years of history. And yet while Americans and Europeans know about silk and tea, most struggle to name a single Chinese soap opera, film or pop star. There are good reasons for this: the Communist Party's strict censorship and content guidelines have made freewheeling innovation difficult. And China's name-brand products have long been ignored abroad, often because they are considered inferior.

That is starting to change. The country is undergoing a revolution in its production of creative intellectual property, with the full support of the party. Ever more brands are moving into Western markets. More Chinese products are popping up on social media in America and Europe (and sometimes even in popular American cartoons). The reception has been warm so far.

Labubu is just one example. The company that makes it, Pop Mart, has notched a 400% increase in its share price over the past year as the world has embraced its dolls. Many other brands are making inroads, too. Mixue, a Chinese cold-drinks and ice-cream restaurant chain, has opened stores across South-East Asia, and is now starting to open shops in America. So is Chagee, a milk-tea brand. In



↑ *Soft-toy power*

2024 a blockbuster video game called “Black Myth: Wukong” made waves around the world, becoming one of the most successful games ever.

A Labubu cartoon series is in the works. But its prospects will be limited in the West. China still has problems crafting the stories behind its products. One factor that has made companies such as America's Disney or Japan's Nintendo so powerful is the ingenious narratives they create for their characters. Disney then capitalises on its film characters with related merchandise. Nintendo has created entire universes for its video-game characters, such as Mario, who then star in movies and appear on T-shirts and lunchboxes.

This form of Chinese creativity still seems far off. In 2025 an animated film called “Ne Zha 2” broke Chinese box-office records. While the company behind it also did well in merchandising its characters, it has not been as successful in the West. This is mainly due to limited screenings in America and Europe and a plot focused on Chinese mythology, which can be hard for Westerners to grasp. But a bigger challenge for Chinese films overseas is creative restrictions imposed by the government. The rules are opaque, and are communicated directly to producers. Supernatural themes are frowned upon, for example, as is anything at odds with “socialist values”. The resulting films are a hard sell to Western audiences.

Even so in 2026 people around the world can expect to see new brands with unfamiliar names in their cities. It could be a Pop Mart, a Mixue or a Chagee. But the most iconic Western names—Apple, Coca-Cola and the like—will continue to satisfy the biggest global appetites. ●

Funny ha-ha

BEIJING

Stand-up comedy is providing an outlet for people's gripes

Sarah Wu China correspondent, *The Economist*

A GROWING NUMBER of people in China feel their country's future looks gloomy. Many young Chinese do not think their lives will be better than those of their parents, who enjoyed the *hongli*, or dividends, of the country's rapid economic ascent. Nearly 18% of people aged 16-24 are unemployed, a prolonged property crisis has left local governments and homeowners poorer and the leadership's war against unproductive competition is producing results only slowly. But instead of collapsing, the country is laughing.

More crowds are gathering in Beijing, Shanghai and other metropolises to hear young people transform their stresses into punchlines. In the first half of 2025 the number of comedy shows jumped by 54% compared with 2024, and ticket sales surged by 135%, making stand-up the largest theatre genre after plays, according to the China Association of Performing Arts. Online, the two most popular comedy shows racked up 700m views in 2024.

China's stand-up scene serves as a welcome pressure-release valve. Adapting to a new reality, Chinese comedians are



A stressed-out society is finding solace in shared frustrations

▶ making lemonade from lemons. “Last year, everyone was really sulky about the economy not growing as fast as it had before,” says Zhao Jiahuan, the founder of a comedy club in Beijing, who is ideally placed to track the most popular topics and themes. “This year, people are more accepting of it. The economy isn’t growing, but there are ways to survive.”

Comedians are not merely surviving, but turning more introspective, with jokes about *yuansheng jiating*—how their families raised them—gaining popularity, for example. And one silver lining of a slower economy, as leaders urge workers to clock off earlier from the office, is more time to reflect and relax at shows.

In a society where public discussion often takes place online and turns discordant, there is a real desire to connect. Stand-up can offer the comfort of knowing others are experiencing similar struggles. Sometimes it offers insight into other lives lived. With food and package delivery as cheap as it is in China, urban society has become more atomised. When a delivery driver takes the mic, the audience embraces his perspective.

Live comedy allows grievances to be aired in public, within limits. All sorts of people, from the disabled to the depressed, are sharing their experiences. But women’s issues have taken centre stage because “there’s too much that has been left unsaid,” says Zhang Meinan, the founder of another comedy club in Beijing. “Some things are inherently irrational, but no one speaks out.” That is changing. A flight attendant turned comedian known as Xi Ha has criticised her former employer for making female employees wear short skirts and high heels. Her routine may have prompted airlines to change their policies.

Comedians were put on their guard in 2023, when authorities cracked down after nationalist netizens accused a comedian of insulting the armed forces. But those who focus on the personal, rather than the explicitly political, have staged a comeback. In 2026 stand-up is expected to grow in both its reach and its diversity.

One of the breakout comedians in 2025 was Fang Zhuren (“Director Fang”), a 50-year-old rural woman. Her routines about leaving a difficult marriage brought a fresh perspective in a field where performers tend to be young and middle-class. As people from different walks of life take the stage, a stressed-out society is finding humour, and solace, in their shared hopes and frustrations. ●



Running a different race

When it comes to AI, China is focusing on rapid adoption over innovation

Corbin Duncan Global correspondent, *The Economist*

ACCORDING TO PRESIDENT Xi Jinping, China knows all too well that technology can determine the rise and fall of empires. Mr Xi has said China’s long stagnation from the Opium Wars of the mid-19th century until the Communist Party took power in 1949 (known as the “century of humiliation”) occurred because it fell behind the technological changes of

the Industrial Revolution. Today officials in China and America predict that artificial intelligence may one day hold similar importance for their countries’ fortunes.

In America these heady discussions centre around the prospect of superintelligence, as AI labs race to be the first to invent a giant model that can perform all cognitive tasks better than most humans—a goal known as “artificial general intelligence” (AGI). It has also led to policies focused on spurring rapid innovation. But China is taking a different approach. Over the coming year its priority will be the rapid adoption of existing AI models by both consumers and industry.

China’s AI ambitions will be formalised in the next five-year plan, the state’s most important strategic document, which is due in March 2026. Officials envisage a three-stage roll-out of AI over the next decade. First, they aim for AI to be widely used in six areas by 2027, namely research, industrial processes, consumer products, health care and education, digital government and technology exports. Second, by 2030, they expect AI to be as widespread as electricity or the internet, and a big driver of economic growth. Finally, China will become an “intelligent society” by 2035, by which time AI is expected to have reshaped culture and human interaction, just as the internet did.

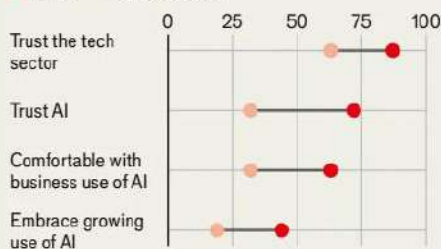
The campaign to diffuse machine intelligence throughout the economy in 2026, and to add AI to existing workflows, will be called “AI+”. The government is already drawing up an “AI+ Energy” plan to manage the electrical grid. Officials aim to replicate the breakneck pace at which consumers and firms integrated the internet into all areas of life in the 2010s, from ride-hailing to food-delivery apps, as part of a campaign they called “Internet+”. To this end China’s leading AI labs will focus on building scenario-specific models to solve particular problems such as managing industrial processes. They will also aim to be fast followers of the latest American models pushing for AGI.

This strategy plays to China’s strengths. It has a big digital economy across which to scale AI applications, and a tech-savvy population. People in China say they are more excited about using AI than in any other country, finds Ipsos, a pollster. With the government’s approval, AI labs make their models freely available, which spurs adoption (in contrast to fee-based Western offerings) and supports the customisation of models to perform particular tasks. American export bans on advanced AI chips have forced Chinese labs to prioritise smaller, more efficient models, making them less energy-intensive and cheaper to run. Both superpowers fret about falling behind. In 2026 it may start to look like they are running in different races. ●

→ Embracing AI

Attitudes towards AI and technology, 2025, % agreeing*

● China ● United States



*Survey of more than 1,150 people in each country, representative of the general population
Source: Edelman Trust Barometer

Anaconda strategy

China has many ways, short of actual invasion, that it can harass Taiwan

Shashank Joshi Defence editor, *The Economist*

SENIOR AMERICAN military officials have said they believe China's leader, Xi Jinping, wants his armed forces to be ready to invade Taiwan, should the order be given, by 2027. That suggests the year ahead will be a crucial one for the People's Liberation Army (PLA) and its navy, which have been churning out ships, jets, drones and missiles at breakneck speed. Yet the likeliest scenario for 2026 is not a full-fledged conflict, but a steady increase in China's political, economic and military pressure against Taiwan and other foes.

After Nancy Pelosi, then speaker of America's House of Representatives, visited Taiwan in 2022, China conducted missile tests and naval drills around Taiwan, essentially simulating a blockade. It has since tightened that noose. In 2025 the PLA conducted live-fire drills in the Taiwan Strait and sent record numbers of aircraft and ships across the so-called median line. The result is a new normal in which China could pivot from exercise to a real blockade in far less time than it would have taken a few years ago.

In 2026, expect this "anaconda" strategy of squeezing Taiwan to intensify and expand. China will continue to send weather balloons over Taiwan's outlying islands and drones over the main island. China's aircraft-carrier strike groups will increasingly

venture around and east of the island, wearing down Taiwan's air force by forcing it to scramble its jets. China might also remind Taiwan of its precarious communications by surreptitiously disrupting them. Undersea cables have suffered unexplained damage at least 11 times since 2023, raising fears that the PLA is mimicking Russian sabotage in Europe.

Taiwan is not the only target of the mainland's attention. China's brinkmanship in the South China Sea is unlikely to abate. In August 2025 a vessel from China's coastguard—part of the navy in all but name—collided with a warship of the PLA Navy during a confrontation with a Philippine vessel near Scarborough Shoal, a contested outcrop. The incident illustrated the risks of China's increasingly aggressive naval tactics, and suggested that a risk-reduction pact signed in August 2024 is not working as it should.

In 2026 the Philippines will take over from Malaysia as chair of ASEAN, the ten-country club of South-East Asian countries. It will use that platform to increase diplomatic pressure on China to sign on to a code of conduct for the South China Sea. Alongside diplomacy, the Philippines will also seek to bolster deterrence by asking for more American support, possibly including joint patrols.

The wild card is a crisis in the East China Sea, farther to the north, where China claims the Japanese-controlled Senkaku islands. In 2025 China's coastguard set a record for the longest-ever intrusion into those islands' territorial waters, with a 92-hour stay after the pursuit of Japanese fishing boats. Experts worry that in 2026 China might establish a permanent naval presence there, chipping away at Japan's legal claim. China could also expand its exploitation of resources near those disputed waters, adding to the two new oil and gas platforms it constructed in 2025.

"The threat China poses is real," warned Pete Hegseth, America's defence secretary, in May 2025. "And it could be imminent." Many of China's neighbours share that sense of alarm. But their immediate concern is less a sudden explosion of violence than a slow, steady and invidious process of creeping dominance by China, as it expands its naval footprint and suffocates Taiwan's economy. ●



← Applying the squeeze

Middle East & Africa



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Stasis and change

DUBAI

Some countries want regional transformation, and some do not

Gregg Carlstrom Middle East correspondent, *The Economist*

IT SOUNDS PARADOXICAL, but the wars that swept the Middle East over the past two years were both transformative and inconclusive. For two decades Iran and its allies had imposed their writ on the region. But then Israel smashed the network of militias backed by Iran and brought its empire to ruins. The Assad regime in Syria collapsed. Then, with America's backing, Israel broke the taboo of attacking Iran itself.

Yet Iran's empire is not entirely gone. Hamas is weakened but still a force, as is Hizbullah in Lebanon. The clerical regime in Iran survived 12 days of Israeli

and American bombardment. In Syria, Ahmed al-Sharaa has a fragile grip on his country. The coming year will thus be a battle between change and continuity. Donald Trump sketches a hopeful vision of change, with Gaza rebuilt, Iran making a deal and renouncing its nuclear ambitions, and more Arab states normalising ties with Israel. But there will be powerful forces pushing for inertia.

The biggest question is what happens in Gaza. For reconstruction to begin in earnest, many things must go right. Hamas must agree to disarm. Arab states must deploy peacekeeping troops, despite concerns that they will end up in a fight with the Palestinians. Israel must accept some role for the Palestinian Authority and offer some guarantee that the war is really over. All of this seems unlikely. If rebuilding is slow, some of Gaza's 2m people may try to leave. That would strain Israel's relationship with Egypt, and might give Israel a pretext to resume fighting in Gaza.

A second question is whether Israel and Iran will engage in another round of conflict. The Islamic Republic could avoid one by making a deal with America, but Ayatollah Ali Khamenei, the supreme leader, is unwilling to make the sorts of concessions Mr Trump demands. His nuclear programme is in tatters after the 12-day war in June, but he will not relinquish it entirely. If there is a second war, Israel will probably try to overthrow the regime. But if Iran thinks Israel is bent on regime change it may lash out at its neighbours across the Gulf. That would force Mr Trump to choose between restraining Israel and





It will be harder still to make progress with Muhammad bin Salman, the Saudi crown prince. His kingdom is the big prize: if it normalises ties with Israel, other Arab and Muslim states would probably follow. But the Saudis have been clear for more than a year that they will not recognise Israel unless it agrees to a real peace process with the Palestinians. They have little reason to renege on that promise. In years past they hoped that joining the Abraham accords would unlock a formal defence pact with America. In 2026 they may get one anyway.

If Mr Trump is the loudest advocate for change, Iran is the main force for stasis. The ayatollah has spent decades trying to balance being neither at war nor at peace with Israel, and on the brink of building a nuclear bomb. His balancing act failed. Yet at 86 years old, he seems unable to change course. That job will have to wait for his successor.

Israel, confusingly, will be a force for change and stasis. It supports Mr Trump's vision of a region transformed, yet whoever wins Israel's election will not want to make concessions to the Palestinians. The dream of regional integration will have to wait: Israel will be a hegemon, but an unloved one.

All of this will mean an uneasy year for Gulf monarchs. They are nervous about being targeted by Iran and saddled with the bill for rebuilding Gaza. The Saudis also want to avoid any ultimatums from Mr Trump on relations with Israel. They will continue to flatter and bribe him, even as they strengthen ties with other powers. That may be the most immediate and lasting change from the past two years: by embracing Israel, America has left Gulf states more nervous than ever about relying on it for regional stability. ●

▶ risking the stability of America's Arab allies.

Third is whether Mr Trump manages to expand the Abraham accords, the 2020 agreements in which four Arab states normalised relations with Israel. It is unrealistic to hope that Syria and Lebanon will establish full ties with the Jewish state. But it is plausible that Syria will sign a non-aggression pact in order to curtail Israel's encroachments on its territory. Lebanon may not even go that far, particularly with an election looming in the spring. But talk of a peace treaty—long a taboo subject—will percolate.

Israel will be a force for change and stasis

What now for Palestinians?

Rebuilding may begin in a partitioned Gaza

Nicolas Pelham Middle East correspondent, *The Economist*

NO SOONER HAD Israel completed its partial withdrawal from Gaza, as set out in the Trump Plan, than it began slicing the strip in two. On October 9th Israeli engineers laid knee-high yellow saddle-stones. Weeks later they added chunky yellow blocks. A concrete wall could follow. The new "yellow" line would define a small Palestinian enclave within a larger Israeli-occupied zone. Israel is meant to withdraw fully once Hamas disarms and an

international stabilisation force takes over. Neither looks imminent. Gaza's partition may therefore become indefinite.

The inner enclave will hold Gaza's 2m displaced people, still under Hamas's thumb and living in camps dependent on dwindling UN relief. Israel sees the surrounding zone—"Gaza East"—as a showcase for renewal, with a tariff-free trade area at Rafah on the Egyptian border and a new port on Israel's border. Israel would direct the investment, while "Gaza West" festers. The division also mirrors the rivalry between Gaza's regional backers. Qatar will bankroll the Hamas-run enclave. The UAE, Israel's anti-Islamist Gulf partner, will fund reconstruction of the outer ring by Egyptian firms.

Governance will be split. Donald Trump's "Board of Peace" might oversee reconstruction from the Israeli side. On the Palestinian, Israel could release Marwan Barghouti, the

most popular Palestinian leader, from jail and exile him to Hamas's enclave. He will wait for the elections that Mahmoud Abbas, president of the Palestinian Authority, has promised by October 2026.

Mr Barghouti could be the one figure able to defeat Ha-

mas at the ballot box. That could prompt a handover of power in Gaza as well as the West Bank. With Hamas out of power, decommissioning could start. Reconstruction might finally begin. But Israel's steady annexation of the West Bank would continue.



↑ From the rubble



Israel looks inwards

JERUSALEM

As elections loom, the focus will shift to domestic politics

Anshel Pfeffer Israel correspondent, *The Economist*

IF THE TWO ceasefires Donald Trump imposed on Israel in 2025, with Iran and with Hamas, continue to hold going into the new year, then in 2026 Israel may finally have a period in which it can deal with its internal affairs. But it is not at all certain.

Both wars have ended, or are at least paused, but are far from concluded. Iran's nuclear and ballistic missiles programmes were seriously damaged in the 12-day war in June, but could be resurrected. In Gaza, despite the bloodshed and destruction of the past two years, Hamas is still the most powerful party on the ground. It will continue to dominate Gaza unless a serious peacekeeping force can undertake a credible decommissioning process, as envisaged by Mr Trump's peace plan.

Israel's next election must take place by the end of October. Binyamin Netanyahu, the long-serving prime minister, will fight yet another desperate campaign for re-election. His bloc of hard-right and ultra-religious parties is trailing badly in the polls, but he has one big advantage. As prime minister, Mr Netanyahu can, to a degree, dictate Israel's security agenda to his political benefit. Many Israelis are

convinced that he has already done so, holding out against previous ceasefire deals until Mr Trump forced his hand, and prolonging the war in Gaza to avoid a drubbing at the ballot-box.

But while liberal Israelis have been protesting against Mr Netanyahu's suborning Israel's national security to his own narrow political interest for the past three years, the real limit on his power comes from the White House. Mr Trump prides himself on ending the wars in Gaza and Iran and will not want Israel to resume either of them.

This creates a political dilemma for Mr Netanyahu. He is heavily invested in presenting himself to Israelis as a close partner of the president and cannot afford to cross Mr Trump. But admitting to Israelis that the wars are over, even temporarily, also means admitting that Israel has failed to achieve the "total victory" Mr Netanyahu promised.

Rather than solve this dilemma, he is trying to revive the polarising debate which raged in Israel before the war in Gaza broke out, between the relatively liberal, mainly secular Israelis who support Israel's activist Supreme Court, and the religious-right camp who want to diminish its power. If he cannot convince enough voters that he won in Gaza, Mr Netanyahu will try to distract them with a culture war over the future of Israel's democracy.

So even if, with Mr Trump's help, further rounds of fighting are avoided in 2026, it is likely to be a year in which Israeli society is severely tested by a toxic election campaign. It may also prove to be Mr Netanyahu's last political battle, given his age (he is 76). If the voters finally show him the door, perhaps it could also be a year in which Israelis start to rebuild trust in the political system, and some sense of national unity. ●

A time to build

DAMASCUS

Reconstruction requires more than handshakes

Gareth Browne Middle East correspondent, *The Economist*

THE SYRIAN president's handshakes in Manhattan contrasted starkly with the ghostly silence of Jobar, a suburb of Damascus flattened more than a decade ago by the former leader, Bashar al-Assad. In New York, Ahmed al-Sharaa was feted as the future by generals and senators; in Jobar, where rubble lines the roads, it is harder to see a path forward. Syria's new leader has staked much of his political capital on the lifting of international sanctions. And as things stand, he will probably get his wish in early 2026, as hawks in Washington soften their tone. International banks are on standby and export agreements are being readied.

Yet, nearly a year after the fall of Mr Assad in December 2024, little has been rebuilt. Mr Sharaa has repeatedly urged patience at home while wooing foreign benefactors. Life is better in some ways: electricity is more reliable and the secret police are gone. At least 1m Syrians have returned home. But the country remains in ruins, and the pace of reconstruction is glacial. A Syrian businessman based in Europe recalls being urged to donate up to \$10,000 on his monthly trips home, to help build a school or a community centre. "You can't rebuild a country like that," he sighs.

Mr Sharaa's focus must shift inward. Sectarian violence—against Alawites in March and Druze in July—has devastated minorities' trust in him. Kidnappings and killings go unpunished. Many Syrians are again afraid to leave their homes.

Syria's new parliament will also have to prove its worth. One-third of its members were handpicked by Mr Sharaa; the rest were "elected" in October 2025 by committees also chosen by him. Political parties remain outlawed. Critics fear it will become a rubber-stamp institution, as it was under the Assads, and that Mr Sharaa is simply building a new one-man regime.

By most measures, the president's diplomatic offensive has been a success. But Syria now requires more than handshakes. Unless he can deliver tangible change, those who cheered him into Damascus may turn against him. ●

Crying out for peace

A ceasefire is possible in Sudan, but could it last?

Tom Gardner, Africa correspondent
The Economist

FOR SOME Sudanese—around 2m of them, according to the UN—2025 brought a measure of respite. Over the previous year the country's civil war had grown to become perhaps the biggest and most devastating in the world. But the recapture of Khartoum, the capital, in March by the Sudanese Armed Forces (SAF) was a turning-point. As many as half a million people returned to the city in the month of July alone. The optimism among the SAF and its supporters was such that some reckoned the army might soon deal a final blow to the Rapid Support Forces (RSF), the paramilitary group vying with it for control of Africa's third-largest country.

Yet the RSF soon fought back, more vigorously than even the pessimists might have foreseen. Armed with drones acquired with the help of the United Arab Emirates (UAE), its chief foreign backer, the RSF swiftly took the war to the skies. (The UAE denies involvement.) Port Sudan, the SAF's base and Sudan's de facto capital since a few months after war erupted in 2023, came under fire for the first time. After retreating from Khartoum and regrouping in its home region of Darfur,



↑ Scorched earth

the RSF regained momentum on the battlefield. In June its fighters advanced into the strategic borderlands between Sudan and its northern neighbours, Libya and Egypt, capturing an army garrison and an important smuggling route. The escalation added to already widespread fears that the war is morphing into a broader regional conflagration.

The RSF's advance involved some of the bloodiest massacres in nearly three years of war. In el-Fasher, the besieged capital of Darfur, which the RSF finally took full control of in October, civilians mostly from local African ethnic groups were butchered. As many as 1,500 may have been killed in a single assault in April by the RSF, which emerged from the Janjaweed, an ethnically Arab militia that terrorised Darfur in the 2000s. Hundreds are believed to have been killed in RSF raids on villages in Kordofan in July.

Various putative peace talks—in London, Washington and Geneva—failed in 2025. But things may look different in 2026. Donald Trump, ever keen on winning a Nobel peace prize, and fresh from his successes in the Middle East and his administration's partial success in brokering a truce between Rwanda and Congo, has signalled an interest in a Sudanese deal, too. A proposed meeting of foreign ministers from Egypt, Saudi Arabia and the UAE in July was called off, reportedly because of disputes over the wording of a joint statement. But it offered a hint of what America might deliver were it to make Sudan a priority. It is still the only actor theoretically able to force the war's belligerents—and their foreign backers—into the same room.

It would therefore be rash to rule out a ceasefire in Sudan. The RSF, which announced a parallel government headed by its commander, Muhammad Hamdan Dagalo (known as Hemedti), now controls a landlocked rump state. Some analysts reckon its leaders would happily sign a peace deal which carves up Sudan's minerals, above all its gold, and grants a share of power at the centre.

But a truce, followed by a power-sharing deal that divvies up the spoils, is not the same as a lasting peace settlement. The RSF and the SAF are both to some degree kleptocratic cartels with factions that have done well financially out of the war, notably by dealing in gold, which also buys arms and influence. The RSF, in particular, is made up of mercenaries lured into the fight by the prospect of loot. If peace puts them out of business, they could act as spoilers to any deal. No less worrying is the prospect of a transactional, Trumpian deal that keeps the kleptocrats happy but ignores civilians. Such a deal might silence the guns, but it is unlikely to bode well for Sudan in the long run. ●

Going through the motions

Another year of cynical election theatre beckons in Africa

Tom Gardner, Africa correspondent,
The Economist

THE INAUGURATION in January 2025 of John Mahama, Ghana's president, should in theory have been a showcase of democracy's enduring health in Africa. Dignitaries from across the continent gathered to celebrate yet another peaceful transfer of power. Yet even in Ghana, known as Africa's model democracy, troubling signs were visible.

Ibrahim Traoré, Burkina Faso's populist strongman, arrived in military fatigues and with a sidearm in his belt. Rapturous cheers greeted him. Such grandstanding set the tone for another deeply disappointing year for Africa's struggling democrats. And there is little reason to expect 2026 to be much better.

Whereas 2024 saw some surprise opposition victories, most prominently in Senegal and Botswana, there were no such causes for optimism during 2025. Coup leaders in both Guinea and Gabon staged sham votes in order to stay in office. So did the continent's burgeoning club of leaders-for-life. Paul Biya, Cameroon's president and, at 92, the world's oldest head of state, secured his eighth consecutive term; the 83-year-old president of Ivory Coast, Alassane Ouattara, bagged his fourth. And in Djibouti, President Ismael Omar Guelleh changed the constitution to allow himself to run for a sixth term.

In the coming year, one bright spot for functional democracy will be South Africa, where the ruling African National Congress is expected to lose ground in local elections. Helen Zille, the chair of the liberal Democratic Alliance, could plausibly become mayor of Johannesburg, the country's commercial capital. Zambia, too, will probably have a reasonably

92

The age of the world's oldest head of state:
Paul Biya of Cameroon

credible vote, though President Hakainde Hichilema will benefit from a weak and divided opposition.

Elsewhere, however, ruling parties will be largely going through the motions. In Uganda, Yoweri Museveni—the president and, at 81, another leader-for-life—will again stage some electoral theatre in which there is no chance of an opposition victory. Bobi Wine, his most potent rival, has been allowed to run. But compared with the last election, in 2021, the mood is despondent. Even officials in Mr Wine’s party admit in private that they will not win.

Similarly, in South Sudan, President Salva Kiir may try to hold a much delayed national vote in order to appease foreign donors and put an end to the country’s interminable “transition”. But his main opponent, Riek Machar, has spent most of 2025 under house arrest and faces charges of murder, treason and crimes against humanity. A contested election is far more likely to inflame the country’s many civil conflicts than tame them.

The most significant bogus election will be held in Ethiopia, Africa’s second-most-populous country. In the last vote, in 2021, the ruling Prosperity Party, led by Abiy Ahmed, the prime minister,



won 96.8% of the seats in parliament. Yet despite this Mr Abiy claims to run the most democratic government in the country’s history (not, admittedly, a particularly high bar). When he took office in 2018, he assured colleagues that he would serve only two terms. Western donors swung

behind him, hailing a historic transition to democracy. The following year Mr Abiy won the Nobel peace prize.

This time round, few will buy the rhetoric. All the prime minister’s chief rivals have been co-opted—those who resisted are now in prison, the bush or exile. The media have been cowed. A new draft law prepared by Mr Abiy’s government would grant authorities sweeping powers to restrict civil-society groups on “national security” grounds.

The only real question is whether the elections will happen at all. Ethiopia’s two most populous regions, Oromia and Amhara, remain in the grip of long-running insurgencies. The Tigray region, site of one of this century’s deadliest wars between 2020 and 2022, teeters on the brink of further conflict. And tensions with neighbouring Eritrea continue to rise, in large part because Ethiopia has designs on its Red Sea ports. At just 49 years old, Mr Abiy now speaks privately of decades more in power. The scale of his domestic ambitions, and his fervent belief that he is divinely anointed, suggest that he has no plans for retirement and intends to stay on. But another war could scupper that. ●

Africa alone

SAVA, MADAGASCAR

The effects of aid cuts will be felt across the continent

John McDermott Chief Africa correspondent, *The Economist*

“WE CAN’T FILL the gap,” sighs Seramila Teddy, the governor of Sava, a region in the north-east of Madagascar, one of the poorest countries in the world. He says that since President Donald Trump dismantled the United States Agency for International Development (USAID), hitherto America’s largest vehicle for delivering foreign aid, there has been a “really big impact”. That is readily apparent when visiting villages in the region, where small wooden clinics are closed. American aid helped pay for health workers at the facilities. The remaining nurses cannot afford to reach such remote places, with the result that disease is on the rise, according to a local doctor.

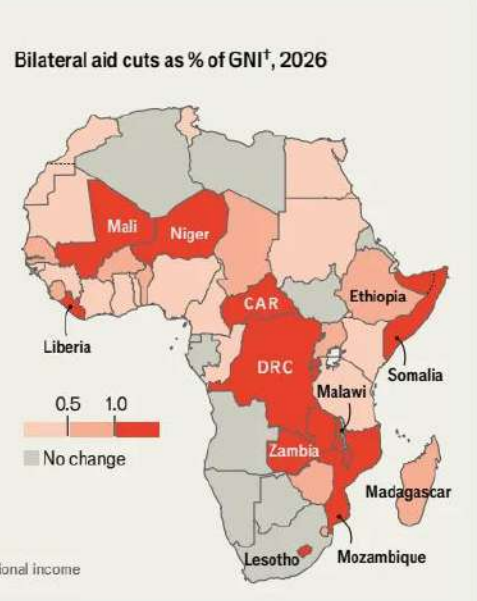
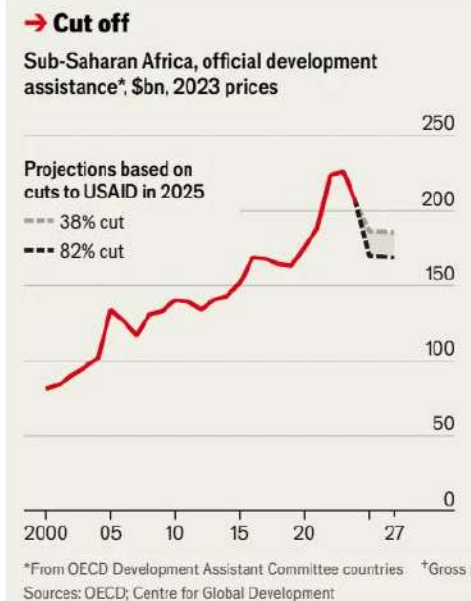
In 2026 it will become apparent that the

post-cold-war era of international development is unquestionably over. The Trump administration has demanded further cuts in his proposed budget for the coming fiscal year. The largest European donors will start to dramatically curtail their aid spending, too. Donor Tracker, an online tool, estimates that aid spending in real terms by the 17 largest Western donors may be more than 25% lower in 2026 than it was in 2024. Sub-Saharan Africa will be the worst-affected region, according to the

OECD, a club of mostly rich countries.

In the long term this could shock African policymakers into ditching the complacent approach that has long defined their policymaking. But in the short term there will be pain in the poorest African countries, and for the most vulnerable Africans.

Bilateral aid cuts—ie, excluding reductions in aid via international bodies such as the UN—will be equivalent to more than 1% of gross national income in nine



▶ African countries, according to the Centre for Global Development (CGD), a think-tank based in Washington, DC (see map). The largest African economies, such as Nigeria, South Africa and Kenya, will feel little macroeconomic impact. But in countries such as Malawi, Liberia and Ethiopia, where the IMF says aid accounts for a “significant” share of government revenues, the reductions will put further pressure on stretched budgets.

There are good reasons to be sceptical about the relationship between aid and economic growth. But few reasonable people doubt that aid spending, particularly that directed towards humanitarian relief and health care, saves lives. Rough estimates by Charles Kenny of CGD and Justin Sandefur suggest that Mr Trump’s proposed budget cuts put 1m lives at risk globally. Rations are already being cut in refugee camps across Africa and, as the case of Madagascar shows, health care is grinding to a halt in places that rely on donors for public services.

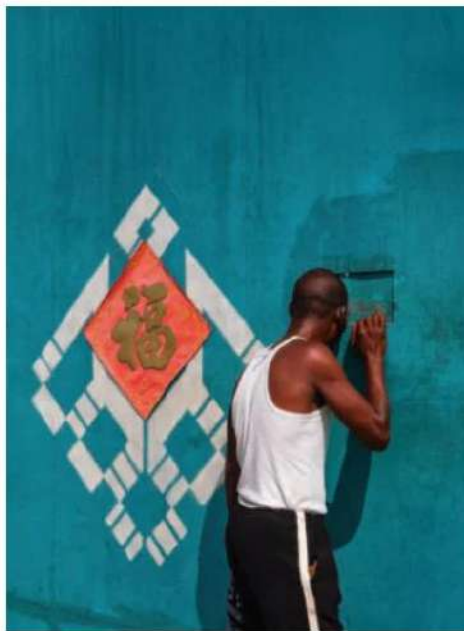
Efforts are under way to plug the holes that will be left by the cuts. Bill Gates, a technology billionaire turned philanthropist, has pledged to donate “virtually all” of his wealth by 2045, mostly in Africa. Gulf countries may stump up more for humanitarian crises. But neither philanthropists nor rising middle powers will be able to make up the shortfall. For its part, China has shown little interest in replicating the sort of altruistic model of aid pioneered by the West, preferring a more transactional approach based on trade deals and infrastructure projects.

Defining this new era will therefore be left to Africans themselves. In theory, aid cuts, and the dismantling of the wider development “industry”, with its thousands of well-meaning but often naive technocrats, should force African policymakers to take more responsibility. For too long they have relied on outsiders to set their priorities. The end of the old era should create the space for African elites to think more ambitiously about modernising their countries on their own terms.

The challenge is that these same African elites have largely been complicit in the underperformance of their economies for many decades. The continent is entering a new phase of aid and development. But it may have to wait for a new generation of leaders for it to truly begin. ●

\$141bn

Value of Chinese exports to Africa in the first half of 2025, up 26% over the same period in 2024



Eastward ho

LAGOS

Western aid cuts and protectionism prompt Africans to look east

Ore Ogunbiyi Africa correspondent, *The Economist*

MUCH OF THE rich world has turned its back on Africa and is no longer shy about it. President Donald Trump’s drastic aid cuts are well documented, but Britain and the EU have also trimmed their contributions. Countries are rethinking their military support in Africa as they spend more on their own defence. America’s tariff onslaught did not exclude the region, nor did its travel bans. In response many African countries will make a turn of their own in 2026, to the east.

China has a long history of pouring money into African infrastructure, but as America embraces protectionism, its rival has spotted an opportunity to redefine its role on the continent. China is pitching itself as a dependable defender of African interests on the global stage. It pledged to waive most import tariffs for African countries after America raised its own. Chinese manufacturers, facing tariff barriers in America, are also finding willing buyers for their cheap goods in Africa (see chart). In the first half of 2025, exports from China to Africa rose to \$141bn, an increase of 26% over the same period in 2024.

Already, Chinese companies have

transformed a host of African industries. Around half of all smartphones bought in Africa are made by Transsion Holdings, a Chinese conglomerate. Imports of Chinese solar panels are booming, increasing by 60% in the year to June 2025, and supplying energy more cheaply and reliably than local utilities. OPay, a leading African fintech firm founded by Zhou Yahui, a Chinese billionaire, has a record in Nigeria of staying online even when other banking apps crash. Temu, a Chinese online retailer, is expanding throughout the continent faster than Amazon. The Jetour 4x4 vehicles sold by Chery, a Chinese carmaker, are far more affordable than Western alternatives.

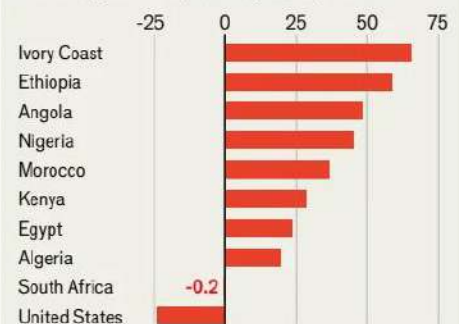
Unlike Western producers, Chinese manufacturers offer goods that suit Africa’s poor but populous markets. “There’s nothing manufactured in the West that the bulk of African consumers can afford,” says Francis Dufay, the boss of Jumia, an online marketplace that operates in nine African countries.

But it is not just China that is receiving a warmer welcome in Africa. Japan, which remains one of Africa’s biggest donors, has made clear that it wants to get more involved economically. Gulf countries are also boosting aid and foreign direct investment. Singaporean firms are reshaping agriculture and food-processing in the region. Unsurprisingly, autocratic rulers in Africa seem to feel more kinship with their Asian counterparts than with Western democrats. As the West puts up fences, young people looking to emigrate are increasingly choosing to head to countries such as China and Malaysia to study and work. Cultural influences such as South Korean TV dramas and the introduction of Mandarin in some national curriculums have shifted attitudes.

As with its Belt and Road infrastructure initiative, there is a whiff of neocolonialism to China’s growing involvement in Africa. Attitudes, and investment patterns, could shift again. But for now, Africa is finding value in looking east. ●

→ China whirl

China, goods exports to selected countries, June-August 2025, % change on a year earlier



Source: China Customs

International



Ice-breaker

The Arctic will become much more connected to the global economy

Anton La Guardia Diplomatic editor, *The Economist*

THE SHORES of the Arctic ocean are thrumming with ever more activity: tankers, freighters, research vessels, barges, cruise ships and even private yachts sail its waters. Expect more in spring 2026, when the ice breaks up. As the polar ice-cap retreats, the Arctic is becoming less remote and forbidding.

On conventional maps the Arctic is truncated and marginal. But look at the globe from above the pole (see map on next page) and it is immediately apparent why the region is turning into a strategic crossroads: it washes the Eurasian and American landmasses, and links the Atlantic and Pacific oceans. It holds bountiful

oil, gas, minerals and fish. And it promises to shorten global shipping routes that must currently squeeze through the Suez and Panama canals, use of which has been constrained in recent years by conflict and drought respectively.

How fast the Arctic opens up depends on climate change, economic factors and, above all, geopolitics. The rate of melting has slowed in recent years. But unless global warming is somehow abruptly arrested, increasingly ice-free summers are inevitable. The ice cap's yearly minimum area in September 2025 was 39% smaller than it was in 1980. Less ice makes transit easier for shipping but brings complications. Looser ice is more unpredictable; rising seas and storms damage coastlines without shorefast ice; thawing permafrost undermines buildings; and ice-roads are passable only when frozen.

The rivalries between China, Russia, America and western European countries—and developments farther away—will determine much of what happens at the top of the world. If the war in Ukraine comes to an end, and Russia emerges from sanctions in 2026, then Western investment in the Russian Arctic could resume. Donald Trump and Vladimir Putin, the American and Russian presidents, have discussed future Arctic deals. Conversely, if the war in Ukraine goes on and Mr Trump decides to keep turning the screws, Russia's ability to export Arctic oil and gas may be curtailed and hydrocarbon exploration will get a boost elsewhere, especially around Alaska, where Mr Trump is loosening regulations. ▶▶

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As for shipping, if the Red Sea route via the Suez canal remains risky because of attacks by Houthi rebels in Yemen, there will be stronger interest in developing the shorter but tricky and seasonal northern sea route (NSR), along Russia's northern shore. At the moment it is mainly used to transport Russian oil, gas and other commodities to China. But in the autumn a Chinese-operated container ship sailed from Ningbo in China to Felixstowe in Britain through the NSR, in what its operating company bills as the start of a regular cargo service. South Korea says it will start testing the route in 2026. If the Houthis stop shooting, the NSR will be less attractive.

Even with less ice, operating in the Arctic is difficult. Economic projects will be sensitive to prices and support from governments, not least when it comes to infrastructure. The Trump administration's ambition to double Alaska's oil exports looks doubtful given the eye-watering costs of drilling for oil and pumping it from the North Slope through the 800-mile Trans-Alaska Pipeline. Even more questionable is the "big, beautiful twin", a proposed gas pipeline to supply Asian markets with liquefied natural gas. The company promoting the project claims it will start laying down pipes in 2026.

Meanwhile, China's restrictions on the export of rare-earth minerals will enhance the lure of the Arctic's deposits, which helps explain Mr Trump's desire to take over Greenland, a Danish-ruled territory. But conditions there are even more austere than in Alaska. And in 2026 work is due to start on expanding the port of Nome in western Alaska, providing deep-water docking close to the increasingly frequented Bering Strait. Currently the nearest such port is Dutch Harbour, some 800 miles away. Greater capacity at Nome will in turn improve the prospects for the Graphite One project, a planned mine nearby that will produce graphite for use in lithium-ion batteries.

For decades the Arctic was "a snow globe", a curiosity observed from without, says Mads Frederiksen of the Arctic Economic Council, a pan-Arctic economic-development body based in Norway. But increasingly, he says, "it's part of a globally connected world." That will become more apparent in the coming year. ●



Say goodbye to 1.5

Overshooting the Paris agreement's toughest target

Rachel Dobbs Climate and environment correspondent, *The Economist*

IN ITS INITIAL "assessment reports"—lengthy tomes of scientific knowledge on the climate, published every eight years or so—the Intergovernmental Panel on Climate Change conveyed what the future might look like through a range of "scenarios". Each ended up with a different amount of global warming, based on different assumptions about policies, technologies, energy use and population size. But this approach proved hard for non-scientists to understand, let alone act upon.

By the time of the fifth report in 2013, however, it was clear the relationship between cumulative carbon-dioxide emissions and temperature rise was very linear. This meant all the complex nuance could be expressed as a simple "carbon budget": if you want to limit warming to a specific level, there's only so much CO₂ you can emit. For a 50% chance of limiting warming to 1.5°C above pre-industrial levels, the carbon budget was calculated to be 2,890bn tonnes. Human activity had already caused emissions of

2,390bn tonnes by 2019, so that left 500bn.

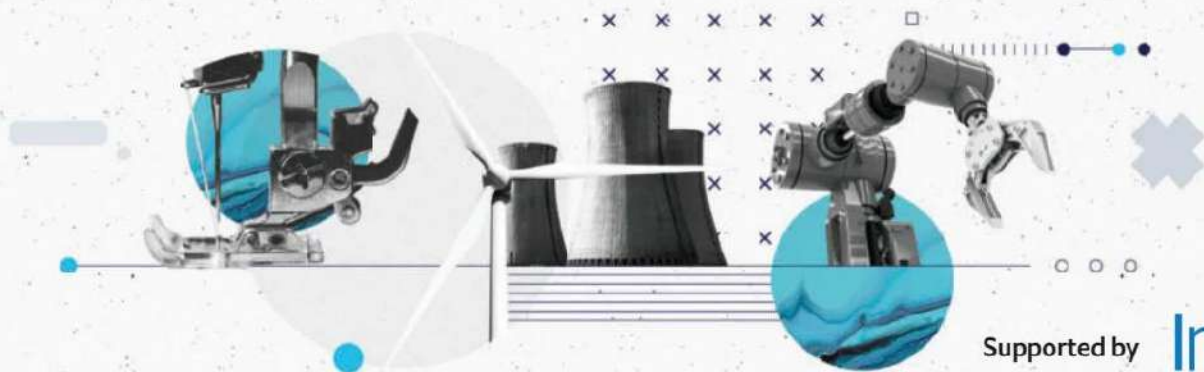
It now seems that 2026 will be one of the world's last years in the black. The latest estimate is that, at the start of 2025, there were just 130bn tonnes of CO₂ left in the budget; and for a 67% chance of staying under the 1.5°C threshold, the remaining budget was just 80bn tonnes. So at the current rate of emissions, roughly 42bn tonnes a year, there is a 33% chance that the threshold will have been exceeded by the end of 2026, and warming of more than 1.5°C will be more likely than not by the end of 2027. The conclusion that humanity is heading for a post-1.5°C world seems inescapable.

Ideally, this should focus minds. Baked into the Paris agreement of 2015 was a tacit acknowledgment that countries could not (or would not) slash emissions fast enough to stop dangerous amounts of warming. So all practical trajectories for staying below 1.5°C or 2°C (the agreement's looser, more realistic target) by the end of the century allowed for a period of "overshoot", after which temperatures are brought back down.

The length and severity of this overshoot depends on how quickly emissions can be reduced to near-zero, and on the speed with which "negative emissions" technologies that suck up carbon dioxide, and thus compensate for the budgetary overshoot, can be deployed. (Such carbon-removal technologies exist, but only on a small scale and at eye-watering cost.)

So governments in 2026 and beyond face some hard choices. Once the 1.5°C threshold is passed, either reducing the temperature (via negative emissions), or stabilising it at a higher but not catastrophic level (ie, less than 2°C of warming), will still require dramatic emissions cuts. The future, as Homer Simpson exclaimed when a loan came due, has a habit of turning into the "lousy, stinking now".

Enterprise AI in action



Supported by **Infosys**

Few outsiders hear what directors say in boardrooms, but one safe bet is that AI dominates most agendas. In the latest quarter of 2025, executives at 57% of S&P 500 firms mentioned it on earnings calls. Yet a survey by America's Census Bureau finds that in September this year only about a tenth of firms had used AI in the previous fortnight. **Enterprise AI in action**, a new series by Economist Impact, examines how to turn AI talk into working practice.

Our first three articles consider how to build AI-ready firms. They pair insights from Erik Brynjolfsson, a leading thinker on how AI changes work, with examples of AI in action from two firms starting to use it meaningfully: IKEA and LVMH.

The question vexing many executives is why AI dazzles in prototypes yet disappoints in real-life productivity. The reason, says Mr Brynjolfsson, is that AI is often adopted without organisational change. Firms must invest in new processes, skills and roles that complement AI to gain from it. The result is a productivity "J-curve", where AI spending rises before output does. Mr Brynjolfsson argues that to shorten the dip, firms must organise work around tasks, not titles, and use AI to augment rather than replace human judgement. The largest gains will come to those that build "centaur" teams where humans and AI learn from each other and measure returns with a statistician's discipline.

The series then turns to action and how IKEA is assembling an AI firm. The Swedish retailer approaches AI like its furniture: modular, practical and accessible. It sets firm limits—no AI in hiring or surveillance—then prioritises AI projects through its "democratic design" principles of sustainability, quality and affordability. It puts AI literacy on a par with its mandatory health-and-safety training to build common understanding across 70,000 employees, allowing local teams to adapt central tools to their needs, whether in-store operations or supply-chain planning. The results have been impressive, from forecasting systems that keep meatballs in stock to room planners that save hours of manual slog. One of many lessons here is that once guardrails and priorities are set and staff are empowered to build with AI, meaningful use of the technology tends to self-assemble.

LVMH offers another story, of how AI can strengthen a business without remaking it. The luxury group starts by recognising

core strengths—craftsmanship, attentive service and years of client data—and uses AI to extend them without losing the atelier's touch. In LVMH stores, the technology cuts routine work so advisers can spend more time with clients and, in studios, algorithms disturb the creative process while leaving final design choices to creatives. To wield scale and minimise risk, LVMH develops new AI tools with major brands like Louis Vuitton and Dior, before rolling them out across the group. The lesson is practical: wield your strengths and use AI to sharpen your edge.

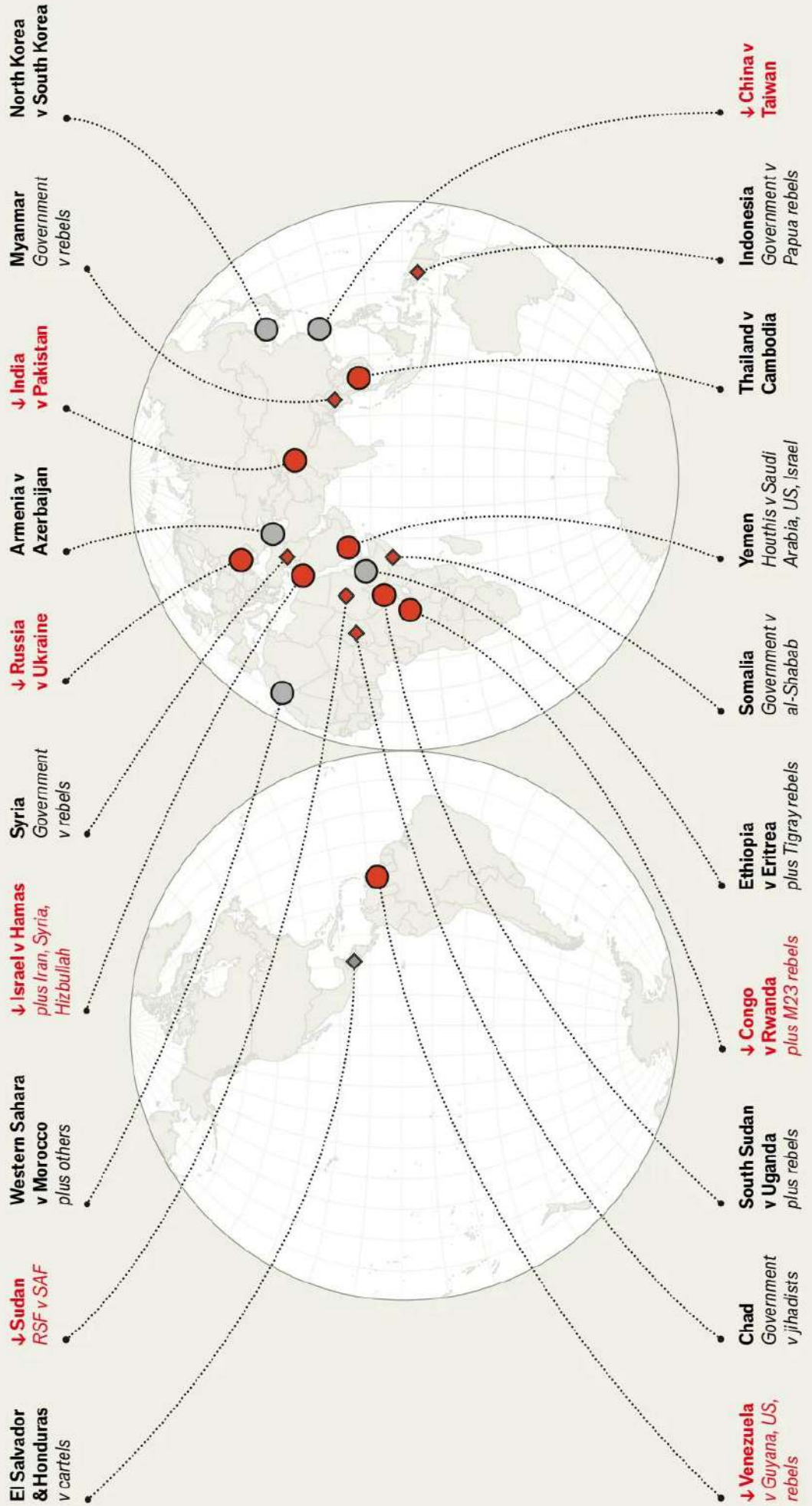


Find out more at
[impact.economist.com/
enterprise-ai-in-action](https://impact.economist.com/enterprise-ai-in-action)

Conflicts to watch

The world has returned to a bloodier time. 2026 may set a record for deaths in warfare this century. Here are seven conflicts—some potential, some already hot—to watch in 2026

- Multi-country conflict
- ◇ Internal conflict
- ◆ Active fighting in 2025



Sondre Ulvund Solstad,

Senior data journalist, *The Economist*

China v Taiwan

Will Xi Jinping make a bid for legacy? China's leaders have watched Russia's war in Ukraine and perhaps drawn sobering lessons about the difficulties of conquest. But the vast disparity in military capability between China and Taiwan means Beijing may be tempted to move if American backing for the island appears to weaken, or the economic costs of offensive action fall. For now a blockade seems more likely than invasion, though even that carries huge risks, including military intervention and economic retaliation by America and its allies.

Russia v Ukraine

Russia's casualties are now estimated to exceed America's in the second world war. Its forces have seized just 1.3% of additional Ukrainian territory since December 2022. This arithmetic of attrition suggests that 2026 will bring either glacial progress, a conflict frozen from exhaustion, or some sort of deal. But two other scenarios are possible: a Ukrainian front-line or political collapse, aided by Kremlin subversion; or Russia's economy buckling as aerial attacks shut down its oil industry. Either of the two would have massive consequences for Europe, and the world.

Sudan's SAF v RSF

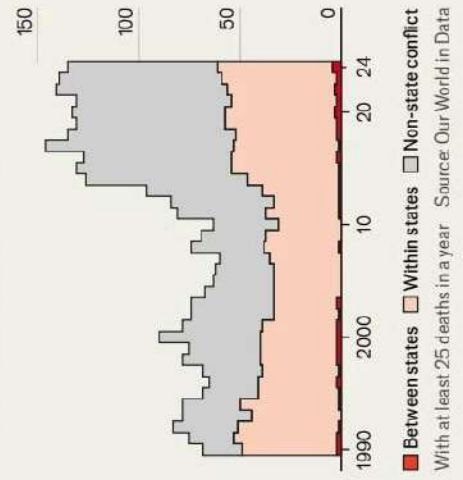
The Sudanese Armed Forces (SAF) and Rapid Support Forces (RSF) remain locked in fierce warfare. The paramilitary RSF controls much of Darfur and western Sudan, while the SAF holds the capital and eastern regions. Millions of civilians are on the run, and many are starving. The conflict, and Africa's largest humanitarian crisis, is likely to persist, fuelled by support from Egypt, which backs the SAF, the UAE, which backs the RSF, and other regional powers (the UAE

Maduro's regime, though how much force America is prepared to use is unclear. Air strikes are more likely than an amphibious invasion. Mr Trump may even deploy special forces if he sees a chance to capture or kill Mr Maduro. Venezuela's president has no shortage of enemies. He recently escalated Venezuela's century-old claim to two-thirds of the territory of neighbouring Guyana—the oil-rich Essequibo region. Despite orders from the International Court of Justice not to do so, Venezuela held illegal gubernatorial elections for “Guyana Esequiba” in May 2025, picking administrators for territory it doesn't control. But now any move on Guyana by Venezuela would surely trigger a confrontation with America.

Congo v Rwanda

Decades-old tensions over ethnic grievances and eastern Congo's mineral wealth threaten to explode into full-scale war. Under its dictator, Paul Kagame, Rwanda in 2025 armed, supplied and directed M23 rebels as they seized Goma, a major city in the Democratic Republic of Congo, and for good measure sent in its own troops, too. M23's areas of operations in Congo roughly double

Global number of armed conflicts



2m

↑ The number of people facing famine or the risk of famine in Sudan. More than 24m people there are facing acute hunger

Rwandan territory by proxy, and a thin agreement signed in the White House between Mr Kagame and Felix Tshisekedi, Congo's president, did not include them. Ugandan troops have also stepped up their activities in Congo—acting as “security partners” to Congo's weak government—because they are worried about M23, who fight their local allies. Gold is part of the draw. Rwanda, which has little domestically, has mysteriously become a major exporter. Also in the mix are oil, gas and minerals such as cobalt, critical for battery production.

Israel v Hamas

Will the fragile truce hold? Gaza lies in ruins, with tens of thousands dead. Israeli forces still control half of the territory, and Hamas has yet to disarm. Horrific though it would be, a resumption of war is not inconceivable. Both sides have already accused the other of violating the most recent ceasefire, negotiated in October. But if Mr Trump remains invested in his peace plan, and those involved co-operate, there is hope, too. If an international peacekeeping force materialises, rebuilding could finally begin at scale. Displaced Gazans would then be able to return to what remains of their homes. For now, though, the most probable outcome is grimly familiar: a divided territory, suffering Palestinians and a pause in the violence that endures—until it does not.

Sources: Council on Foreign Relations; International Crisis Group; World Food Programme; news reports

1.12m

↑ The number of Russians killed and wounded since the invasion of Ukraine—more than American casualties in the second world war

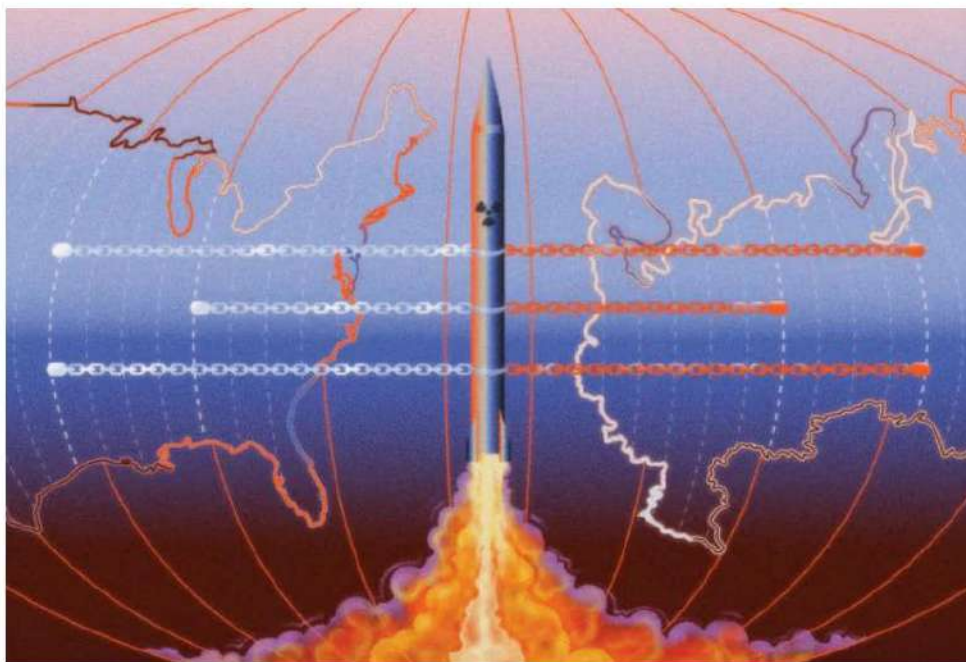
denies involvement). But should the two sides' backers see reason, a deal could be possible—and potentially lucrative. For an ambitious would-be peacemaker like Donald Trump, Sudan offers both riches (gold, oil and a strategic coastline) and the opportunity to end what may be the world's deadliest active conflict.

India v Pakistan

The two nuclear-armed archenemies have recently been brought back from the brink after a deadly skirmish—but their underlying conflict remains unresolved. In April 2025 an attack in India that killed 26 tourists triggered the most serious crisis in years, with cross-border strikes and more than 50 deaths along the line of control in Kashmir before a ceasefire was declared. Field Marshal Asim Munir is tightening his grip on power in Pakistan, and India's rapid economic growth is widening the conventional military gap. With a fifth of the world's population between them, keeping the peace in 2026 is of no small importance. Two factors will make it harder. America, which often mediates between the two, has estranged India in a tariff war. And in their latest spat, India and Pakistan showed less restraint than in the past.

Venezuela v Guyana, United States

In its renewed focus on security in “our hemisphere”, the Trump administration has been massing forces off Venezuela, expanding military exercises and striking small boats that it claims are smuggling drugs. The ultimate goal may be to hasten the end of Nicolás



Stop-START talks

The end of nuclear arms control looms

Anton La Guardia Diplomatic editor,
The Economist

THE INCIPIENT nuclear-arms race may start in earnest in 2026. New START, the last treaty limiting American and Russian long-range nuclear weapons, expires in February. There will not be enough time to renegotiate a new one. A nuclear free-for-all beckons, as China rapidly builds up its arsenal, and America's allies and foes alike think of going nuclear.

The best hope of preserving restraints is an informal extension to give time for a follow-on agreement. Vladimir Putin, the Russian leader, has proposed keeping current limits for another year; Donald Trump, America's president, has sounded positive. But any deal will probably lack verification measures abandoned after Russia's all-out invasion of Ukraine. Moreover, a stopgap deal may only delay the inevitable.

New START restricts America and Russia each to 1,550 deployed "strategic" (ie, long-range) warheads and 700 launchers (bombers, intercontinental ballistic missiles and sea-launched ballistic missiles). Russia's and America's stockpiles are larger, with more than 5,000

warheads each, including shorter-range "tactical" weapons and reserves. China has over 600 warheads and will have more than 1,000 by 2030, the Pentagon reckons.

Republican and Democratic nuclear wonks increasingly believe America needs more nukes to confront the "two-peer" problem. Some say it is time to stop New START. At the very least, a new arms-control deal should cover Russia's 1,500-odd tactical weapons (America has about 100) and its "esoteric" systems, such as nuclear-powered cruise missiles and torpedoes under development. More important, it should also restrain China.

But Mr Putin wants to keep making nuclear threats, especially if his forces are still at a stalemate in Ukraine. China will not agree to nuclear restrictions until it reaches some degree of parity with America and Russia, if ever.

Mr Trump will be torn. One instinct is to be the world's scariest military power. If his loose talk of resuming nuclear-weapons testing turns into actual underground blasts, expect a chain-reaction of detonations elsewhere. Another impulse is his fear of nuclear weapons, which have worried him since the 1980s. He has repeatedly spoken of the need to control and even reduce their number. A third ambition is to be the ultimate dealmaker.

If Mr Trump does not embark on serious arms-control talks, the world may head into an arms race that is potentially scarier than that of the cold war. But if he does, he may still not dispel fears. Any doubt about his readiness to defend allies with nuclear weapons may push some of them to seek their own. And if he bargains over nukes as he does over tariffs—raising the stakes to extremes in the hope of gaining leverage—that would make for a frightening world, too. ●

The race to dominate space

As military competition intensifies, here are the areas to watch

Shashank Joshi Defence editor,
The Economist

AMERICAN GENERALS once spoke in euphemisms about the possibility of fighting a war in space, preferring to talk about space "dominance" rather than the grim prospect of shattering satellites in orbit. Now they speak openly about the need to launch weapons from, within and towards space in any future conflict with Russia or China. In 2026 there are five areas to watch that could shape the direction of this intensifying competition.

One is President Donald Trump's plan to build a "Golden Dome" missile-defence shield to protect America. Much of that project is a rebranding of older, more prosaic efforts to detect, track and intercept drones, cruise missiles and ballistic missiles directed at America. But in 2026 Mr Trump's vision may come into sharper focus. Will he order the construction of new interceptors to complement those currently stationed in Alaska and California? Will he push ahead with plans for space-based lasers? Either would be hugely expensive. Mr Trump's budget request for the 2026 fiscal year involves a 40% boost for the US Space Force, a service he created in his first term. That might require cuts in other areas.

A second area is the progress made by Elon Musk, the owner of SpaceX, and a former close aide to Mr Trump. Mr Musk has said that his Starship launch vehicle—the most powerful ever built—will be sent to Mars for the first time in 2026, albeit without crew. That is looking unlikely. But Starship's success could have major implications both for America's civilian space programme and its military ambitions, given the vehicle's enormous cargo capacity. If a war in space were to result in the destruction of

40%

Donald Trump's requested boost in the budget of the US Space Force for 2026

▶ satellites, America would be in a far better position to replenish its losses if Starship were working reliably. But strained relations between Mr Musk and Mr Trump might complicate matters.

Third is whether Russia chooses to tear up the rules that apply in space. In 2024 America's government warned that Russia was developing a space-based nuclear weapon capable of destroying large numbers of satellites in low-Earth orbit in one go—including, for example, Mr Trump's proposed laser interceptors. Such a weapon would violate the Outer Space Treaty of 1967, which prohibits the placement of weapons of mass destruction in orbit. *Cosmos 2553*, a Russian satellite launched in February 2022, the month Russia invaded Ukraine, has come under particular suspicion, though it is thought to have a dummy warhead rather than a live

nuke. Western intelligence will be watching to see whether Russia continues to test this system.

A fourth trend is more countries embracing offensive space operations. In 2025 Britain said for the first time that it would build "counter-space" capabilities, a term that encompasses kinetic and electronic means of attacking or disrupting satellites. France recently conducted a "rendezvous and proximity operation", or RPO, with America, against an unspecified but suspected Russian satellite, a manoeuvre that could be used offensively in a conflict. America and China have also manoeuvred close to one another's satellites. Expect more of this kind of orbital shadow-boxing as armed forces contemplate conflict in space.

Finally, new technologies and companies are likely to pierce the fog of

war in space, as on Earth. Space surveillance—observing objects, and their movements, in space—can be expensive, requiring powerful radars. But the private sector is increasingly capable of satellite-spotting. Maxar, an American firm, uses satellites to take photographs of Earth from orbit. It now also trains its cameras upwards against other satellites, producing remarkably clear pictures of Chinese and other craft that would once have been the preserve of spy agencies.

Slingshot Aerospace, another company, operates a network of 150 telescopes that track satellites. When Russia's *Cosmos 2553* briefly spun out of its orbit in April 2025, sensors from Slingshot were able to track its tumbling. Military competition in space is growing more intense with every year—but it is, at least, also becoming a little more transparent. ●

How did we do in 2025?

A look back at last year's predictions

Tom Standage Editor,
The World Ahead 2026

GIVEN THE unpredictable nature of Donald Trump, we didn't do too badly in 2025: saying the year would be shaped by "Trump, technology and uncertainty" was a good call. The new president "will want to be tough on Iran", we suggested; American bombers struck its nuclear facilities in June. We predicted "a showy effort at mass deportations", but that pushback from owners of fruit farms and hotels would deter Mr Trump from more extreme measures. That was spot on. But with huge new funding for immigration enforcement due to kick in, things may change in 2026.

It is a similar story with Mr Trump's tariffs. We said that if he went ahead with them, the impact on America's economy in 2025 would be "relatively muted", which it has been, so far; the big question is whether that continues in 2026.

That said, we suggested that "the courts will not let Mr Trump do whatever he wants", but the Supreme Court proved to be more willing than we expected. And we blithely declared that his plan to "make college campuses patriotic again" was doomed to fail, failing to anticipate the extent of his attacks on universities, science and free speech—and, more generally, his disdain for constitutional constraints.

Our record on geopolitics was also mixed. *The World Ahead 2025* was published in November 2024, and by the year's end South Korea's president had declared martial law as part of an abortive coup, and Bashar al-Assad's regime

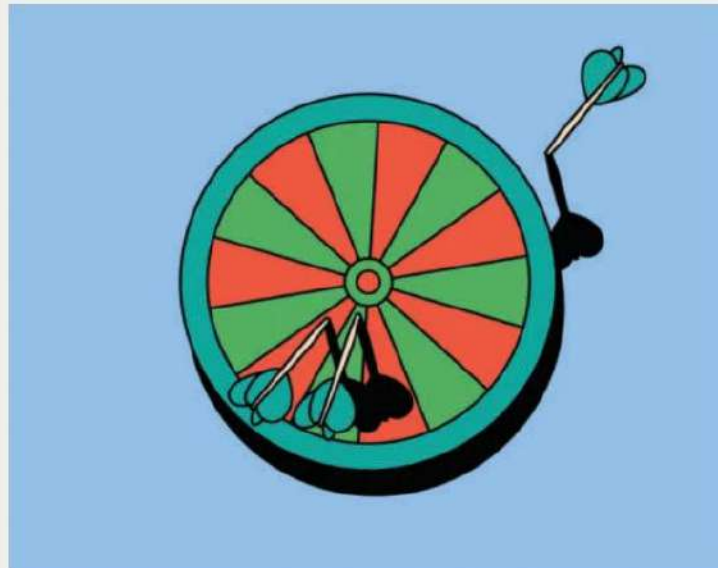
had collapsed in Syria. We had not anticipated either of these. Ah, you may say, but neither happened in 2025; but we will not resort to such pettifoggery here. Elsewhere, we did not foresee Israel's dismemberment of Iran's "axis of resistance", or the brief conflicts between India and Pakistan, or Thailand and Cambodia.

As for elections, we said Justin Trudeau was unlikely to win Canada's election; he agreed, and resigned, making way for the meteoric rise and victory of Mark Carney, his successor as Liberal leader. But in Australia, where we said a minority government was likely, the ruling Labor Party increased its majority. Oops.

On climate, we raised the possibility that China's emissions (and thus global emissions) might have peaked; figures released in 2025 suggested that they had indeed. We also said China might choke off exports of critical minerals; it imposed restrictions on exports of rare-earth elements in April, and then tightened them further in October, to increase its leverage over America in trade negotiations.

And we noted that Chinese engineers were "adept at innovating around resource constraints" caused by American export controls. DeepSeek R1, an impressive artificial-intelligence model released in January, caused one of several stockmarket wobbles in 2025 in which investors questioned the scale of Western AI investment. But despite growing talk of a bubble, things have not come to the crunch we expected.

In a similar vein, we said the shift in focus from fighting inflation to deficits would require "painful economic choices"; alas, rich countries (notably America, France and Britain) have continued to dodge the issue, heightening fears of a bond-market crisis in 2026. As with AI, the reckoning we anticipated for 2025 may merely have been delayed. Stay tuned.



Digital public infrastructure gains ground in the global south

South Africa, Nigeria and Brazil are helping to shape how countries build digital public infrastructure and foster trust

Across Africa and Latin America, governments are investing in digital public infrastructure (DPI) to transform how residents verify their identities, make payments and access services. Ultimately, though, the success of DPI will hinge on trust.

A handful of countries in the global south are setting the pace—building not only the systems themselves, but also the public confidence needed to sustain them. Brazil, Nigeria and South Africa have emerged as early leaders, shaping regional conversations and offering tangible models for others to follow.

“DPI is being driven by countries in the global south who understand first hand how interoperable and inclusive digital systems can unlock access to opportunity and growth,” says Sanjay Jain, DPI director for the Gates Foundation.

South Africa, as current G20 president, has made DPI a pillar of its agenda. It joined India and Brazil in last year’s Troika Declaration, a call to embed DPI in governance. At home, it is “walking the talk”, says Mr Jain, with a national roadmap built on digital IDs, a government services portal and a secure data exchange framework.

Nigeria has also emerged as a leader. More than 120m Nigerians—over half the population—now use a National Identity Number, with a goal of reaching 180m next year. A new digital authentication app promises to enhance secure access to services.

In Latin America, Brazil is setting the pace. Over 150m people—almost three-quarters of the population—use Pix, a free, instant payment system that proved invaluable during the pandemic, drawing millions into the formal economy. Brazil’s Open Finance system has boosted competition, while its Mercosur Digital Citizen Framework, built with Uruguay, enables cross-border digital identity recognition.

“Brazil’s model is one that other countries in the region are watching closely,” says Mr Jain.

Still, challenges remain. Concerns over surveillance, data misuse, foreign control and system complexity persist, especially in countries with limited Internet access.

Produced by EI Studios for the Gates Foundation



“Trust is everything. When users see that systems are designed to protect them, and when governments communicate openly and act accountably, trust follows, and adoption grows.”

Sanjay Jain, DPI director for the Gates Foundation

But these risks only reinforce the need for DPI to reflect its core design principles: systems must be secure, inclusive and adapted to local contexts. Frameworks such as the UNDP’s DPI Safeguards Initiative help to ensure that these values are embedded from the outset.

Early movers are putting these principles into practice and setting standards for others to follow beyond their borders. Open-source platforms like Mojaloop (for payments) and MOSIP (for identity) are gaining ground. Through initiatives like the 50-in-5 campaign, countries are sharing experiences and bringing insights back home, reinforcing a cycle of collective learning that makes DPI more inclusive, secure and responsive to local needs. The result is not a one-size-fits-all model, but a dynamic, collaborative ecosystem.

Seeing DPI in action can shift public attitudes and build momentum.

“Trust is everything,” says Mr Jain. “When users see that systems are designed to protect them, and when governments communicate openly and act accountably, trust follows, and adoption grows.”



Gates Foundation

Europe



Guns, growth and greenery

Europe faces three big challenges in the coming year

Chris Lockwood Europe editor, *The Economist*

EUROPE ENTERS 2026 squeezed from all directions. It needs to find the money to rebuild its military strength in the face of an increasingly hostile Russia, while expanding its support to Ukraine as America backs away. It must find a way to revive economic growth after years of underperformance, as protectionism spreads worldwide, or risk a further drift of unhappy voters towards the political extremes. And it must sustain its climate transition under relentless pressure from the populist right to water down or abandon its targets. Each of these tasks alone would be difficult. Together they are a nightmare.

Russia's invasion of Ukraine in 2022 exploded decades of complacency—and the challenges are only mounting. Russia has been getting more provocative, cutting undersea cables in the Baltic, conducting a campaign of sabotage and assassination across the continent, and sending drones into Poland and Romania while its planes constantly and deliberately stray into NATO airspace. Expect all of this to persist, and worsen, in 2026. Donald Trump's ambivalence towards America's European allies has emboldened Vladimir Putin, so expect him to go on testing the limits as he seeks to divide and undermine NATO.

Nearly all NATO members now meet the alliance's defence-spending target of 2% of GDP, set in 2014. But now there is a new target, 3.5%, set at the June 2025 summit. And with the exceptions of Poland, Lithuania and Latvia, few members have even begun to explain to their voters how they will get there. Germany has been bravest: its chancellor, Friedrich Merz, has exempted defence from the *Schuldenbremse* (Germany's debt brake) and has laid out a path to use this facility to hit the new target as early as 2029. Spain says it is not bound by the new number at all.

In 2026 Europe will spend more on defence than at any time since the cold war. Yet it is still far from attaining the "strategic autonomy" on which President Emmanuel Macron of France has rightly insisted. So expect 2026 to be dominated by a series of rows about where the extra money for defence, and for Ukraine, will come from. Very roughly, for the first three years of the war, America and Europe each contributed ►►

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WHAT IF?

NATO's founding treaty states that an attack on one member is deemed an attack on all. **What if Russia attacked a NATO member?** Would the alliance really risk war with Russia to respond militarily? If Donald Trump moved to block such a response, NATO would be undermined, and the alliance irreparably damaged.

▶ \$50bn a year to Ukraine. America's contribution has now dried up. Even if the war comes to an end, Ukraine will need support for years to come. In 2026, politicians will have to confront this fact.

It will also be another testing year for Europe's economies. Inflation is easing and interest rates are ticking down, but growth is still sluggish and extra defence spending will not help much. Productivity growth has flatlined, ageing workforces are dragging down output, and venture-capital money and jobs are flowing to America and Asia. Debt-to-GDP ratios are over 100% in Italy, France, Spain and Belgium.

Public finances are strained by debts from the pandemic, by green subsidies and now by defence outlays. The strain will worsen in 2026, because weak governments have consistently proved unable to force through cuts to welfare and are terrified of raising taxes. In France, Mr Macron may call a snap parliamentary election to try to resolve the problem.

Germany's new infrastructure push, a €500bn (\$589bn) pot of cash, will begin to shift the mood a little. New roads, railways and power grids will attract private investment. Across the euro zone, a modest

Europe enters 2026 squeezed from all directions

uptick in growth is projected, but still only to 1.2% from 0.8% in 2025. European exporters will continue to face high tariffs in America, their biggest market.

The third painful squeeze to watch in 2026 will be over climate policy. The EU's ambitious targets to reduce greenhouse-gas emissions are meeting resistance. Along with slashing migration, opposition to green policies is a hallmark of the hard right, on the rise across the EU. Banning new petrol cars by 2035 and achieving net-zero emissions by 2050 both look increasingly unattainable. And there have been calls to water down the EU's carbon-border-adjustment mechanism, which imposes tariffs on carbon-intensive imports and is supposed to come into force in 2026. In the coming year governments may be forced into a rethink, particularly if the hard-right National Rally wins a parliamentary election in France.

Europe has turned calamity into opportunity before. The euro crisis produced the first steps towards a banking union and a new lender of last resort; the pandemic led to joint borrowing; the war in Ukraine has prompted steps towards defence integration. Will 2026 see something as bold? Alas, it seems unlikely. ●

Breaching the firewall

A crucial electoral test looms for Germany's AfD

Tom Nuttall Berlin bureau chief, *The Economist*

HOW SHOULD Europe's once-dominant conservative parties manage the populist-right insurgency? Should they seek to tame their rivals by bringing them into government, as in the Netherlands or Austria? In the former the hard right came joint first in a recent election; in the latter it tops polls. Should they seek to recast the traditional left-right contest as a titanic struggle pitting centrists against barbarians, as in France? Marine Le Pen's National Rally is set for its best shot yet at the presidency in 2027. Or should they just give up? In Italy the centre-right has been relegated to a minor role propping up the government led by Giorgia Meloni, leader of the hard-right Brothers of Italy.

Germany, Europe's largest democracy, has taken a

different approach: ignore the populists and pray that good governance draws their sting. The hard-right Alternative for Germany (AfD), which rails against immigrants, climate-change policies and Germany's support for Ukraine, has been formally decreed "right-wing extremist" by the country's spooks. (The decision, which the party is contesting, allows for greater surveillance). There are calls to ban it outright.

The AfD languishes behind a *Brandmauer* ("firewall") erected by the other parties, excluding it from participation in any government, including in Germany's 16 states. The AfD came second in the general election in February 2025, but other parties blocked its MPs from senior parliamentary positions—and even from the Bundestag football team.

Yet the *Brandmauer* has not halted the AfD's rise. Indeed, some think it has accelerated its radicalisation: with no path to power, why moderate? In September the German approach will face a stern test in two state elections in the AfD's east German heartlands: Mecklenburg-Vorpommern and, especially, Saxony-Anhalt. Polls in both states put the AfD within reach of an outright majority, a rare occurrence in a country where coalitions are

the norm. If that happens in either, the party will have burned down the firewall. For the hard right to enter a government in Germany for the first time since the second world war would be a political earthquake, and the tremors would be felt across Europe.

Saxony-Anhalt is a particular worry. The state has been run by the centre-right Christian Democrat Union (CDU) for more than 20 years. If the AfD falls short of a majority, it will surely try to win over CDU waverers. Some may be tempted: plenty of right-wing CDU state parliamentarians resent being forced to work

with Social Democrats or Greens, as they must in other states, to block the AfD.

But most CDU voters detest the AfD, and plenty would defect the other way if the *Brandmauer* were breached. Friedrich Merz, Germany's chancellor and the CDU leader, may feel obliged to cut the Saxony-Anhalt branch of the party loose if it caves. But his promise to undermine AfD support by governing well remains unfulfilled: the party is still soaring in national polls. That this challenge is not unique to Germany hardly makes it easier to swallow.



↑ *In wonderland?*

Beyond Ukraine

Bogged down in Ukraine, Russia is broadening the conflict

Arkady Ostrovsky Russia editor, *The Economist*

A SPECTRE IS haunting Europe: the spectre of direct conflict with Russia. Cyber-attacks and incidents of sabotage are increasing. Russian drones are flying over Poland, Germany and Denmark, causing shutdowns of civilian airports. “In Europe, there is at best an icy peace, which at any time can erupt into hot confrontation,” Martin Jäger, the head of Germany’s intelligence service, said recently. Baltic countries are practising mass evacuations in case Russia invades.

Yet in Ukraine, Russia’s “mighty army” has been unable to take over the whole of the Donbas region—the one concrete objective articulated by Vladimir Putin when he began his full-scale invasion. After making initial progress, it has taken less than 1% of Ukraine’s territory since the end of 2022. Russian cemeteries are expanding to accommodate some 250,000 graves of soldiers killed since the start of the war. And Russia’s economy is under stress.

Hence the “grey zone” provocations in northern Europe, which will intensify in 2026. The less Mr Putin can achieve on the battlefield in Ukraine, the more he will want to escalate elsewhere to achieve his goals. He calculates that the greater the threat Europeans perceive to themselves, the more they will prioritise their own rearmament over providing support to Ukraine, undermining its defence. Already, Ukraine is struggling to mobilise men—and confidence in the president, Volodymyr Zelensky, is fraying.

Mr Putin’s war in Ukraine is central to his battle against the West, which he believes has treated Russia (and him personally) unfairly and treacherously. Feeling rejected by the West and unable to compete with it economically, he chose war as the only way to dismantle the American-led security system and expand his own power. He aims to undermine NATO, destabilise European democracies, and divide and intimidate societies that have grown used to peace.

Mr Putin’s thinking aligns with Russia’s military culture, which maintains that the goal of war is not the occupation of territory, but the destruction of the defence and security that sits atop that territory. Yet in nearly four years of war, Russia has been unable to destroy Ukraine’s armed forces or disconnect them from the pump of money and weapons provided by the West. The two former Soviet armies have reached a stalemate on the ground, largely because drones have neutralised Russia’s numerical advantage.

How will the conflict play out in 2026? Long-range drones have allowed both sides to expand the war well

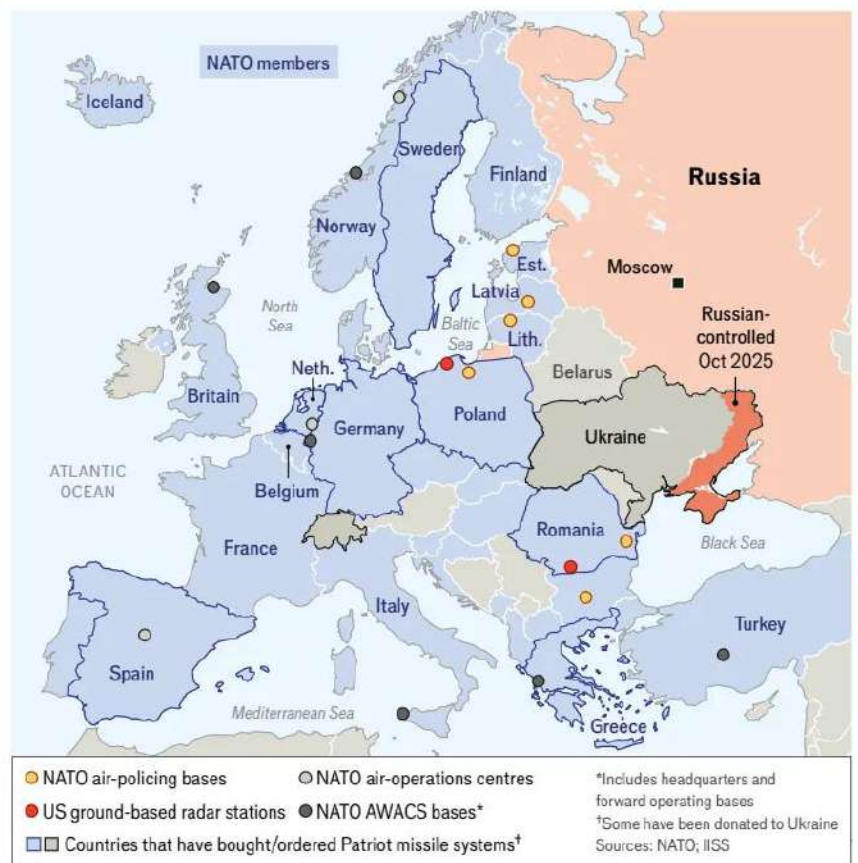
beyond the front line. Ukraine has disabled around 40% of Russia’s oil refineries using its own long-range drones and missiles and American intelligence. Russia has devastated Ukraine’s energy infrastructure and gas production. Ukraine will soon need extra funds from Europe, which is struggling with its own public spending. Russia’s grey-zone activity in Europe is designed to increase that pressure.

Yet Mr Putin’s resources are not infinite. Since 2022 he has mainly relied on contract soldiers, which has been costly and insufficient. To take full advantage of Ukraine’s vulnerabilities he would have to order a general mobilisation and move the economy to a war footing, which carries political risks. The fall in oil revenues is already constraining his military spending. And opinion polls show that Russians are tired of his “special military operation”.

In September 2025 Dmitry Peskov, Mr Putin’s spokesman, was compelled to explain that war is not “purposeless”, framing it in existential terms. “The special military operation is one thing, but what is happening around us is a war,” he said. “We need to win it for the sake of our children, our grandchildren, and for [Russia’s] future.” Mr Putin may decide his best option is to freeze the active phase of the war and turn it into a permanent struggle with occasional flare-ups.

The West sees the war as a crisis that needs to be managed and ultimately resolved, to restore peace and stability. But that is exactly what Mr Putin wishes to prevent. Steve Covington, strategic and international affairs adviser to NATO’s Supreme Allied Command Europe, likens Mr Putin’s actions to a revolution: its purpose is to accelerate the collapse of what Mr Putin believes is already a half-rotten system. And as Vladimir Lenin, the father of the Bolshevik revolution, explained, the worst thing that can happen to a revolution is the loss of momentum. ●

Russia’s “grey zone” provocations in northern Europe will intensify in 2026





The Hungary games

Pay close attention to an election that could change Europe

Stanley Pignal Charlemagne columnist and Brussels bureau chief, *The Economist*

WITH 27 COUNTRIES, each holding national elections every few years, the European Union's politics can feel like a never-ending campaign. The perpetual ousting of governments from Athens to Helsinki can have a paralysing effect on a bloc that, even without elections, struggles to turn best-laid plans into action. The coming year will be refreshingly different. Not only will there be a dearth of elections to distract politicians, but the most important vote of the year could help to unblock the EU rather than to paralyse it.

In a statistical anomaly, none of the ten biggest EU countries, which account for more than 80% of the bloc's 450m population, is due to head to the polls in 2026 to elect a new national leader. Ending the year with much the same collection of presidents and prime ministers as it started with should be a recipe for decisive action as the continent continues to grapple with the second year of the second coming of Donald Trump in America.

It is a safe bet that the Social Democrats will win most seats in the Swedish parliament in September (the last time they lost, 33 elections ago, the first world war was still going on), though they

may lack allies to form a government. But it is not Sweden that everyone will be watching, but Hungary. In the spring Viktor Orbán and his Fidesz party will be on the ballot for the seventh time since 2002. The "proudly illiberal" prime minister has held office since 2010.

Longevity has not made him popular in Europe's top decision-making forum. Mr Orbán's close kinship with both Mr Trump and Russia's Vladimir Putin are anathema to most other EU leaders. The Hungarian knows this—and how to be the centre of attention. Time and again EU summits have come down to whether Mr Orbán would agree not to wield the veto each national leader possesses on some matters. Whether applying sanctions on Russia or agreeing to hold talks with Ukraine on letting it join the EU one day, Mr Orbán has made his fellow Europeans pay a price at every turn, bending the rules that govern EU funding.

Few EU leaders would be sad if Mr Orbán lost. But for the first time in over a decade, that seems a distinct possibility. Fidesz is polling a distant second to Tiszta, largely a one-man party founded in 2024 by Peter Magyar. Tiszta has presented a unified anti-Orbán front for the regime's opponents to get behind.

Looking to Mr Magyar to reboot Hungarian politics is perhaps ironic, given that he is a Fidesz defector, once a close ally of Mr Orbán and ex-husband of the former justice minister. Still, few in the EU doubt he would be easier to deal with than the wily incumbent. The elections will be watched by many beyond Europe. Plenty in America's MAGA movement see Mr Orbán as a model (he has repaid the compliment by promising to Make Europe Great Again). And seeing how a strongman incumbent in a hollowed-out democracy faces a serious electoral challenge will hold lessons far beyond Hungary. ●

Not all bad

Economic growth will pick up a little, but deficits loom

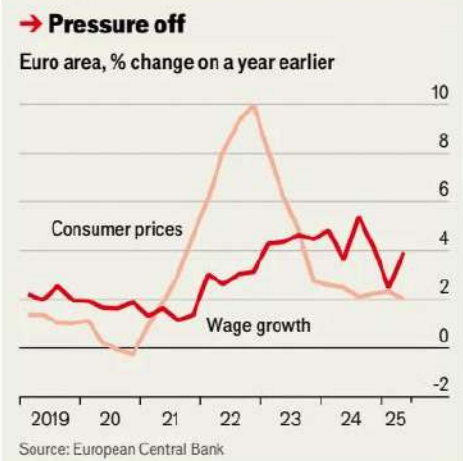
Christian Odendahl European economics editor, *The Economist*

THE GLOOMY story of Europe's economic struggles is easily told. A model based on American protection, Chinese demand, Russian energy and rules-based globalisation cannot thrive in a world where America looks inwards, China becomes a competitor, Russia a warmonger and globalisation the stuff of history books. The continent is ageing fast, and Europe's surging hard-right parties want to limit immigration.

Europe certainly has a lot to worry about. But at least growth will pick up a bit in 2026. One tailwind is that the aftermath of the covid pandemic is now playing out in Europe's favour. Wage growth has outpaced inflation since the final quarter of 2023, yet households have been reluctant to spend, setting aside about 3% more of their income than in the years before the pandemic. Consumers will slowly start to spend more as economic uncertainty subsides.

The normalisation of wage growth and inflation will also let the European Central Bank keep rates low, or even cut them further, should price increases come in below 2%. That will not only help businesses invest—especially in capital-cost-heavy projects in renewable energy and grids—but will also boost the struggling construction sector.

The other tailwind is, grimly, defence. ►►



▶ The war in Ukraine and fears of American abandonment have brought home the message that the continent needs to rearm. After tweaking its fiscal rules, Germany will now allow unlimited deficit spending for defence, and the EU will make more aggressive use of Russian state assets frozen in European bank accounts to arm Ukraine. The EU's fiscal rules, meant to contain deficit spending, have been relaxed to give countries that can afford it more leeway to spend on weaponry.

They will increasingly do so. The growing political rift with America is pushing European countries to buy more from European providers. That will boost local demand for defence kit, and induce firms to invest (see Business section). Factories that make car parts and trains are

The economic demeanour of America and China will continue to trouble the European economy

being retrofitted to produce military components instead, and more will follow. The growing popularity of defence startups among public funders, investors and graduates, will help further. Increased defence spending could add half a million jobs in the sector.

The fiscal largesse is not evenly distributed. While the north spends freely, France remains the big fiscal worry. The country has an outsize deficit of about 5% of GDP that it is struggling to

close. But while big deficits run the risk of a fiscal crisis, they do at least support growth. In the other big countries in the south, Italy and Spain, still-unspent funds from the EU's covid-recovery fund will prop up spending in 2026 and prevent a faster slowdown in Italy, while high immigration continues to grease the wheels of the Spanish economy.

The economic demeanour of the two global superpowers, America and China, will continue to trouble the European economy. But in 2026, it is no longer a shock. The crisis in German manufacturing will be in its eighth year. And the increasing threat from Chinese competition is now a constant feature to which Europe's economy is gradually adjusting. ●

On the brink

Emmanuel Macron will struggle to make the centre hold

Sophie Pedder Paris bureau chief,
The Economist

INSTABILITY WILL stalk France in 2026. A fragmented parliament, and personal rivalry among those hoping to succeed President Emmanuel Macron in 2027, will make for a chaotic year. By October 2025 France had already gone through three different prime ministers in 12 months, with the third of them—Sébastien Lecornu—reappointed to try again. The best hope is a muddling-through with parliamentary compromise; the worst would be a full-blown political crisis that tests France's institutions and presidency.

Three scenarios loom. One is that Mr Lecornu's minority centrist government holds on to the support of parliamentary moderates to pass a budget for 2026. Mr Lecornu will be treading a perilous line between the need to make concessions to the left—he has vowed to suspend Mr Macron's pension reform, which increases the retirement age from 62 to 64—while keeping support on the centre-right. Both Jean-Luc Mélenchon's hard-left Unsubmissive France and Marine Le Pen's hard-right National Rally (RN) will seize any chance to censure the government. Together they cannot topple it in the 577-seat lower house, so the views of

Socialists and Republicans will be crucial.

A second scenario is that Mr Lecornu fails, the 2025 budget is rolled over temporarily into 2026, and the political pressure on Mr Macron to dissolve parliament and hold fresh elections becomes irresistible. When he did this in 2024, he ended up with a shrunken centrist grouping, while the RN grabbed a lot more seats. France will hold municipal elections in March. If needed, legislative elections could be held at the same time.

Were this to happen, polls suggest that the anti-immigration and Eurosceptic RN would top first-round voting with 35%; the four-party left-wing grouping would secure 24%; Mr Macron's centrists would jointly trail on 14%. In 2024 a tactical "anti-RN" barrage helped curb the RN's tally. But in 2026 such unity will fray. Should the RN and allies secure as many as 250 seats, they would claim the right to govern. Jordan Bardella, Ms Le Pen's

30-year-old lieutenant, would be the party's pick for prime minister. France would then face a spell of deepened uncertainty, as the country braced for the first populist government in modern times. Civil disorder and street protests could ensue. A period of "cohabitation" with Mr Macron's presidency would test the constitutional division of powers.

A third, and least likely, scenario is that pressure on Mr Macron intensifies, and he is forced to consider an early presidential election. Mr Mélenchon and even some of Mr Macron's allies have called for him to quit. Ms Le Pen—who will hear in 2026 whether a court ban on her running for elective office is upheld—would also be happy to see him gone. The more domestic trouble he faces, the more he will focus on his ever-energetic international diplomacy. His second term does not end until 2027, and he will do everything he can to avoid leaving office before it does. ●



↑ Pitchforks, on both sides

By Invitation

Rules, tools and values

WHEN I STARTED this job nearly a year ago, I asked for a globe to go in my office. By the time it arrived, quite a lot had happened around the world. Now, spinning my globe in November, it can feel as though the international order stands on the brink of collapse: just look at how Russia continues its war of aggression against Ukraine, for the fourth year in a row. But the reality is that things are not as bad as they seem.

Over the past 80 years the international community has built an extensive system of global and regional forums to resolve differences, including the United Nations, the European Union, the Association of South-East Asian Nations, the African Union and the Community of Latin American and Caribbean States. Even more importantly, we have developed a toolbox of international laws and norms. These provide legitimacy, set standards for behaviour, facilitate co-operation and outline how to resolve disputes.

Some states are now actively seeking to overthrow these norms and rules, and the institutions enforcing them, in favour of horse-trading and a “might makes right” approach. At the other end of the scale is the European Union. First and foremost a peace project, the EU is a family of sovereign nations that came together after the second world war, united by the imperative of avoiding yet another war.

The EU’s steadfast commitment to the international rules-based order, along with our common interests and shared values, have held us together for seven decades and attracted new members, propelling seven enlargements to date and keeping that hope alive for future members from Albania to Ukraine. We created

Europe needs to adapt to a rougher world, argues Kaja Kallas, the European Union’s high representative for foreign affairs



conditions for our citizens’ prosperity through a single market and a common currency. Building the world’s largest trade bloc has made us into a global economic powerhouse. We are known for our freedom of movement, our guarantees of fundamental rights, consumer benefits, health care and food-safety standards. Not least as a global leader in climate action and environmental protection, we also demonstrate an unmatched concern for others: together with our 27 member states, we are the biggest donor

For the EU to stick to its old ways when the world around us is changing is to risk irrelevance

of development co-operation funds and one of the biggest in humanitarian aid.

During my first year leading the EU’s diplomatic service, I have been grappling with the question: how can the EU—founded to establish peace, anchored by international law, dedicated to making the world a better place, one rule at a time—move forward in a world where rulebooks are being thrown overboard? For the EU to stick to its old ways when the world around us is changing is to risk irrelevance. We, too, must adjust.

First, we have to learn to live with ambiguity, and focus on taking step after practical step. History offers guidance. During his ten years as the secretary-general of the United Nations, U Thant personally

intervened in multiple conflicts, from Congo to Kashmir, and in the six-day war. The UN, he counselled, had been founded precisely to transcend transactionalism. After intervening in the Cuban missile crisis, he suggested that “we have, at least for the moment, to accept less than perfect solutions.” We must be willing to do the same.

Second, we have to do our homework and strengthen the EU to be a more muscular geopolitical player. Spurred by Russia’s war on Ukraine, we need to convert our economic strength into military might, so as to defend ourselves and to harness the possibilities of space. We must fulfil our promises to candidate states and welcome them into our union. In parallel, we need to deepen integration via the EU single market and boost our competitiveness and resilience, as outlined by the Letta and Draghi reports respectively.

Third, we need to work with the many partners around the globe with whom we share common interests. We have signed security and defence partnerships with countries in Europe, Asia and North America; 76 countries around the world are already covered by EU trade agreements, and we have upcoming deals with Mercosur, Mexico, Indonesia, India and others. Together we will build a coalition of like-minded countries to reform the global trading system.

I have always believed that international law is the basis for peace. That is what the EU represents to me: the idea that law, not violence or short-term gain, should govern the fates of countries and their people. Defending the rule of law is still an intrinsic interest of every person the world over. It is a mistake to think that we must choose between our interests and our values. ●

Britain



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Not the final word

Brexit is evolving, as global forces push Britain and Europe closer together

John Peet, Associate editor, *The Economist*

THE COMING year will mark the tenth anniversary of David Cameron's 2016 Brexit referendum, the most seismic British political event of recent decades. It will also be the moment for the five-yearly review of Boris Johnson's Trade and Co-operation Agreement of December 2020, under which Britain formally left the European Union in a "hard" Brexit that took it out of the single market, customs union and free movement of people. So you might expect there to be much discussion in 2026 of the consequences of the rupture and the future of Britain's relationship with Europe.

And yet Brexit now comes remarkably low down on

the political agenda. This is all the more surprising because opinion has clearly moved on since 2016. Rising disappointment with Brexit helped bring down three successive Tory prime ministers before Sir Keir Starmer's Labour landslide of July 2024. By erecting new non-tariff barriers, Brexit has hurt exports of goods and, to a lesser extent, exports of services. The initial assumption by the Office for Budget Responsibility that it would reduce GDP by around 4% still looks roughly correct.

Not many voters have actually changed their minds since 2016, however. Instead, two other shifts have swung the balance of opinion against Brexit. Many older Leave voters have died, to be replaced by younger Remain supporters. And the undecided in 2016 now break strongly for Remain. As a result, opinion polls now find that as many as 56% of respondents believe Brexit was a mistake.

Yet Brexit would not be simple to reverse, for three reasons. First, it is impossible to revert to the pre-2016 status quo. Britain would have to reapply for EU membership and negotiate its conditions—a tall order as Reform UK and the Conservative Party would be strongly opposed. Britain would not regain its special budget rebate and might have to agree to join the euro.

Second, the EU has changed significantly since 2016. It is far more active in foreign and security policy, uses more majority voting and has a bigger budget that now includes significant borrowing.

And third, there is little desire to reopen a painful debate. Instead, Sir Keir's government is pursuing ►►

pragmatic ways to move closer to the EU, often surreptitiously. The process began under Rishi Sunak with the revised Northern Ireland protocol, which sought to reduce non-tariff barriers between post-Brexit Great Britain and the province, which remains in the EU's single market for goods. Sir Keir is trying to reduce trade barriers further by aligning with EU food and phytosanitary standards, and signing up to common energy and environmental rules.

The geopolitical situation bolsters the case for closer co-operation with the EU. Russia's war with Ukraine, Donald Trump's erratic second presidency, Middle East tensions: all make a stronger common European response more urgent. The need to rely less on America's security guarantee and more on European defence spending points in the same direction. Post-Brexit Britain may wish to improve links with America and Canada, and with the Asia-Pacific region. Yet it is once again a key player in European defence and security.

Where might the relationship go? It helps that the EU is more relaxed than it was. Early fears that Brexit might encourage other countries to leave have mostly

The geopolitical situation bolsters the case for closer co-operation with the EU

evaporated. The EU still wants to protect the integrity of its single market, but it is more open to allowing non-members to cherry-pick bits of it. New forms of partial membership of the club, Swiss-style, may seem more acceptable as the EU considers its further expansion eastwards. Even sustaining the free movement of people across borders is a less neuralgic obsession now that several EU countries have quietly reimposed border controls.

Further ahead is the possibility of quite different forms of relationship. Non-members such as Norway and Iceland are reopening long-dormant debates about possible EU membership. The western Balkans, Moldova and Ukraine all want closer links with the club that might for a long time fall short of full membership. Different patterns of relations could emerge that might suit Britain better than hard Brexit.

In retrospect, the 2016 referendum may come to be seen not to have permanently settled Britain's place in the European project. The relationship will keep evolving, sometimes in unpredictable directions. And for the next few years, that is likely to push the two sides closer together, not further apart. ●

The fringes rampant

This will be the year of the insurgents

Matthew Holehouse Britain political correspondent, *The Economist*

BRITISH ELECTIONS have been shaped by two long-term trends. Voters have become more volatile: more than four in ten switched their allegiance between the general elections of 2019 and 2024, the greatest shift since studies began in the 1960s.

They are also splitting among more parties: in 2024, Labour and the Tories had the lowest combined vote share for the top two parties since 1910.

In 2026, expect those trends to continue. It will be the year of the insurgents. In May, elections will be held for local government across much of England, and for the devolved parliaments in Wales and Scotland. In theory these elections are about picking politicians to run services in those areas. In practice they will be treated

as an opinion poll on Sir Keir Starmer's government. The verdict may be unflattering.

There are three questions. First, can Reform UK, a populist-right party led by Nigel Farage, cement its status as Britain's highest-polling party? If so, it will be well placed to seek a governing majority at the next general election, due in 2029. Its surge in polling in 2025 was driven largely by an exodus of former Tory voters. If this continues, and more Tory lawmakers can be persuaded to defect, Reform may become the new hegemonic party of the British right. But if the Tories can mount a fightback, Reform could deflate and the British right become permanently

split. The behaviour of habitual non-voters is also crucial. Many say they will support Reform, but they are a tricky group to poll. The local elections will reveal whether they are willing to turn out for Mr Farage.

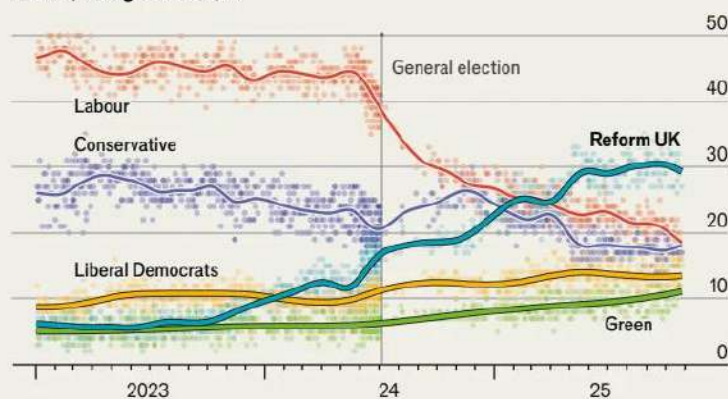
Second, can the Labour Party stem the bleeding on its left? Since coming to office, Sir Keir, the Labour prime minister, has focused on stopping his voters defecting to Reform; hence his hawkish rhetoric on migration. Yet most of Labour's loss of support has been to parties on the left, including the Greens and the Liberal Democrats. At Labour's conference in September 2025, Sir Keir tried to speak to his base, criticising Mr Farage's policies as "racist". Even so, Labour MPs

fear heavy losses to progressive rivals in big cities in May.

Third, will the union come under strain? In Scotland, the Scottish National Party has a good chance of retaining control of the devolved parliament, thanks largely to the unpopularity of Sir Keir's Westminster government. If it does, that would mean the SNP holding office from 2007 to at least 2031, a gravity-defying feat given the party's patchy record on health, education and more. That, they would argue, is a mandate for a new referendum on Scotland's independence.

In Wales, another revolt is brewing. Some constituencies have elected Labour MPs continuously for a century, and Labour has run the country's devolved government since its founding in 1998. That may be at an end: Plaid Cymru, which wants independence for Wales, hopes to oust Labour from the Welsh government for the first time. Add in the election of Michelle O'Neill of Sinn Féin as the first minister of Northern Ireland in 2024 and it may be that pro-separation parties will end up holding office in all three devolved nations. Sir Keir promised to calm Britain's restive politics. There seems little chance of that.

→ Turquoise tide Britain, voting intention, %



Source: *The Economist's* UK poll tracker

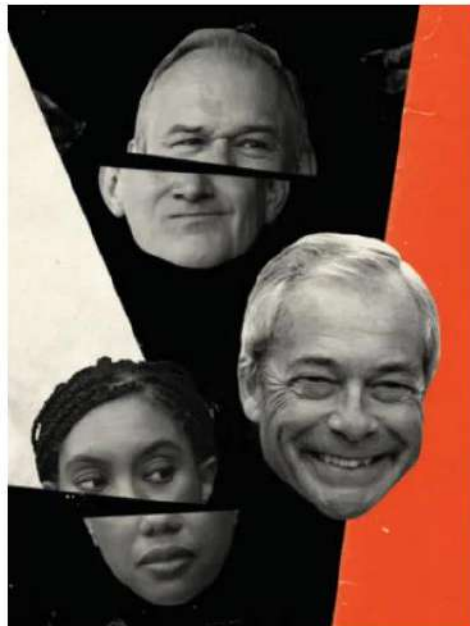
Regicides all round

The leaders of almost every major political party will face a challenge

Duncan Robinson Political editor and Bagehot columnist, *The Economist*

THE BOTCHED leadership challenge by Andy Burnham, the mayor of Greater Manchester, at the end of 2025 was the beginning rather than the end of the discussion over Sir Keir Starmer's future. Labour MPs are more ruthless than their reputation suggests. They forced Sir Tony Blair to name a departure date shortly after the former prime minister had won a historic third term. They subjected Jeremy Corbyn, its former leftie leader, to a challenge. If things do not look up for the prime minister, that underappreciated ruthlessness may rear up again.

Strange as it may sound only two years after an election, Sir Keir may set his own departure date. He is probably the most normal man to have become prime minister, drifting into the job via circumstance more than anything. Those who enter Downing Street are usually fulfilling a life's goal, and only willing to leave on a metaphorical stretcher. By contrast, Sir Keir, 63, is enjoying Britain's most powerful retirement gig. Duty is his watchword; if he is warned he is leading Labour to a catastrophic defeat, and only his departure can save the party, he will do his duty. Or



he could go of his own accord.

The Conservative Party, always the most bloodthirsty, will join in the bloodletting. Kemi Badenoch will face a leadership challenge after lousy election results in May. Under her leadership the party has rotted from the inside out. Many of its volunteers have either given up or deserted to Reform UK; local elections will wipe out another batch of loyal councillors. Desperate Conservative MPs who wish to avoid a similar fate will pull the trigger.

It is a particularly panicky parliament at the moment. Not even historic success guarantees immunity against challenge. Sir Ed Davey, for instance, is the most successful leader of the Liberal Democrats in a century. Its haul of 72 seats in 2024 was its best result since H.H. Asquith led the party. Since then, under Sir Ed's guidance, Lib Dem MPs have bedded in from Oxfordshire to Cornwall. Sir Ed has little ambition beyond slowly grinding the Tories' vote to dust, replacing them as a sensible centre-right party, which would be a stunning achievement for the perennial also-rans of British politics.

Yet not all in Lib Dem land are content. A private discussion about Sir Ed's suitability will become a public one. Some MPs are fed up that the party continues to plod along, neither a party of power nor a party of protest, but instead a symbol of mild discontent in England's most prosperous parts. With all parties struggling, they will argue, the Lib Dems can gamble. Perhaps 200 seats could be theirs for the taking with a suitably determined leader. Sir Ed is not that man. For ambitious Lib Dem MPs, that means only one thing: getting rid of him.

What of the fringe parties? "Your Party", the holding name for Mr Corbyn's band of lefties and Gaza activists, endured a leadership scrap before it had even been formed. Its six MPs have now formalised their relationship. But theirs is a strange alliance between the most progressive voters imaginable and often deeply conservative Muslims. A schism is a matter of when, not if. Zack Polanski, the new leader of the Green Party, won an internal election with 82% of the vote in 2025 and is safe from internal challenges. He will offer an unapologetically left-wing alternative to Labour in 2026. But as a newcomer to national politics he will face scrutiny.

Only Nigel Farage, the head of Reform UK, is truly secure in his position. While other leaders fear ejection by their MPs, Reform MPs fear the inverse: ejection by their leader. Mr Farage has in effect already banished two of those who won seats in 2024. He has never been keen to share the limelight. In 2026, expect the strange spectacle of Conservative MPs entering Reform at one end, while sitting Reform MPs are thrown out of the other. ●

Not grasping the nettle

The British economy will pick up a little, but don't expect miracles

Tom Sasse Public policy editor, *The Economist*

GROWTH WOULD be "Labour's Obsession", promised Sir Keir Starmer, when he was still in opposition. Britain was poor, the Labour leader argued, because it had been governed chaotically and had forgotten how to build anything. But two remedies—sensible management and reform of its sclerotic planning system—would unleash a building boom. And, conveniently, bullishness on growth also seemed to offer a way out of Britain's fiscal mess that did not involve raising taxes. It was not just that stability would lead to growth, Sir Keir mused, Yoda-like, but that growth would lead to stability.

That is not how things have turned out. Under Sir Keir, Britain's economy has kept on sputtering, and forecasters do not see signs of acceleration. No building boom has yet been unleashed: in fact, planning applications fell in the first quarter of 2025, and in London, where building is needed most, new projects almost ground to a halt. As for the chaos, that seems to be endemic. Sir Keir's tenure so far has been tumultuous. Twice, Labour's tax and spending plans have spooked the bond market. In her budget on November 26th Rachel Reeves, the chancellor, must fix a large hole in the public finances.

Expect things to improve a little in 2026. Britain's economic performance has been poor for almost two decades. It has grown by only a cumulative 5.2% since before the coronavirus pandemic. That is well under half of what America has managed (though much of the G7 has also been sluggish). But looking on the bright side, there is plenty of room to catch up. Britain still has strengths—the English language, good universities, a capable tech and services sector—so it may be well

1.5m

The target number of new homes the Labour government wants to build by 2029

placed to benefit as the world is disrupted by artificial intelligence.

One place to look for signs of the gloom lifting is bricks and mortar. Sir Keir's government has passed a planning bill which, though imperfect, is better than the NIMBY's charter left by the Tories. Housing starts were up by 17% in the first quarter of 2025, compared with the previous quarter. With interest rates likely to fall by nearly a percentage point in 2026, housebuilders will start to feel more buoyant. Steve Reed, the housing minister, promises to "build, baby, build" and touts more deregulation. The government will not hit its target of 1.5m new homes by 2029, but it will start to feel as if Britain is building again.

Business investment should also pick up. Before the election, firms were wooed by Ms Reeves's "smoked-salmon offensive" (so named because it involved meeting business leaders over salmon-and-scrambled-eggs breakfasts). Their mood quickly soured when she whacked them with higher taxes. Sometimes, though, chaos can be helpful. The resignation of Angela Rayner, the left-leaning deputy prime minister who failed to pay the correct tax on a second home, means that an employment-rights bill will be further softened. Meanwhile, the government will push ahead with plans for more small nuclear-power plants and data centres. Britain may not be the island of stability that Sir Keir promised, but nor will it be a bad place to do business.

Doomsters sketch out a gloomier scenario: Britain will be exposed if there is a blow-up in the global bond market. Yet talk of it going cap in hand to the IMF, as it did in 1976, is silly. If pushed, Labour could just raise taxes. But if disaster is unlikely, so too is Britain surprising on the upside. No party has much appetite for the tough reforms that would make its economy more competitive. And with the flag-waving Reform UK leading the polls, the focus of policy innovation will be on devising ways to decrease the number of immigrants and asylum-seekers—whatever Sir Keir says about his obsessions. ●



Games over

The beginning of the end for the Commonwealth Games

Georgia Banjo Britain correspondent, *The Economist*

IN 2026 COUNTRIES that Britain once colonised (and a few others) will gather for a sporting jamboree. Thousands of athletes will attend, but the Commonwealth Games will be a threadbare affair. After the Australian state of Victoria pulled out of hosting, citing soaring costs, the competition was almost cancelled. Glasgow, Scotland's biggest city, heroically stepped in, but its efforts will be futile. This will be the year the death knell finally sounds for the games.

Launched in 1930 (the same year as the football World Cup), they initially combined quests for sporting greatness and imperial unity. When the British empire crumbled, the competition nimbly rebranded itself. The British Empire Games became the British Empire and Commonwealth Games, then the British Commonwealth Games and, in 1978, the Commonwealth Games. Today they are slightly less of a colonial relic: two francophone countries, Gabon and Togo, will make their debuts in Glasgow.

The competition's greatest charm is its quirkiness. In addition to the usual athletics, gymnastics and swimming, every

four years lawn bowls, netball and squash—absent from the Olympics but embraced across the Commonwealth—get a rare international stage. Mascots add to the spectacle. When Glasgow last hosted the games in 2014, Scottish terriers led out the teams in the opening ceremony (to the joy of fans, but the ire of Malaysian politicians, who deemed dogs disrespectful to Muslims). In 1982 Brisbane had children dressed as joeys bouncing out of the pouch of Matilda, a 13-metre-tall mechanical kangaroo.

Humans also get to thrive. Although a mere 56 countries are members of the Commonwealth, more than 70 teams compete in the games. This means that proud nations such as Scotland and the Polynesian island of Niue (though not, despite noisy lobbying, the English county of Cornwall) can march under their own flags. With America absent, the minnows can dream big. Fiji's former prime minister previously competed in the javelin, hammer and shot put, as well as the decathlon. Marcus Stephen, a national hero in Nauru when he won seven golds as a weightlifter, went on to be president.

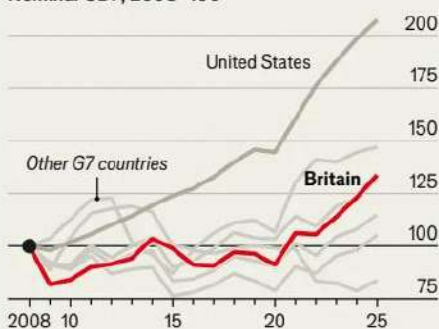
Yet, for all their charm, the games have long been the Olympics on a budget. Sporting achievements aside, the Commonwealth "family" (as the press releases like to call it) hardly hangs together. Former colonies and add-ons such as Mozambique and Rwanda share few values, let alone a lingua franca. In the age of "broken Britain", the Commonwealth brand struggles for relevance. And with Queen Elizabeth II gone, so is its figurehead. The queen's baton relay, introduced in 1958 to carry a message from the monarch, now feels hollow. Few will await King Charles's words with bated breath.

There have been crises before. South Africa lost the 1934 games when its government banned black and Asian athletes. Birmingham saved the 2022 games after the South African city of Durban pulled out. Naysayers have long predicted the games' demise. But this time feels different. With Victoria's snub, the most successful competitor and most frequent host dropped the baton. Victoria's auditor-general called the event a "waste of taxpayer money".

For its part, Glasgow has promised a "lean and mean" event. There will be no marathon and no terriers. There will be no dedicated athletes' village. The revival of the amateur spirit is touching. But in an era of billion-dollar sporting spectacles, nostalgia is no business plan. With India and Nigeria both bidding for the centenary event in 2030, the games are not yet officially over. But if that event takes place, it will be a wake: their terminal decline will become apparent in 2026. ●

→ Also-ran

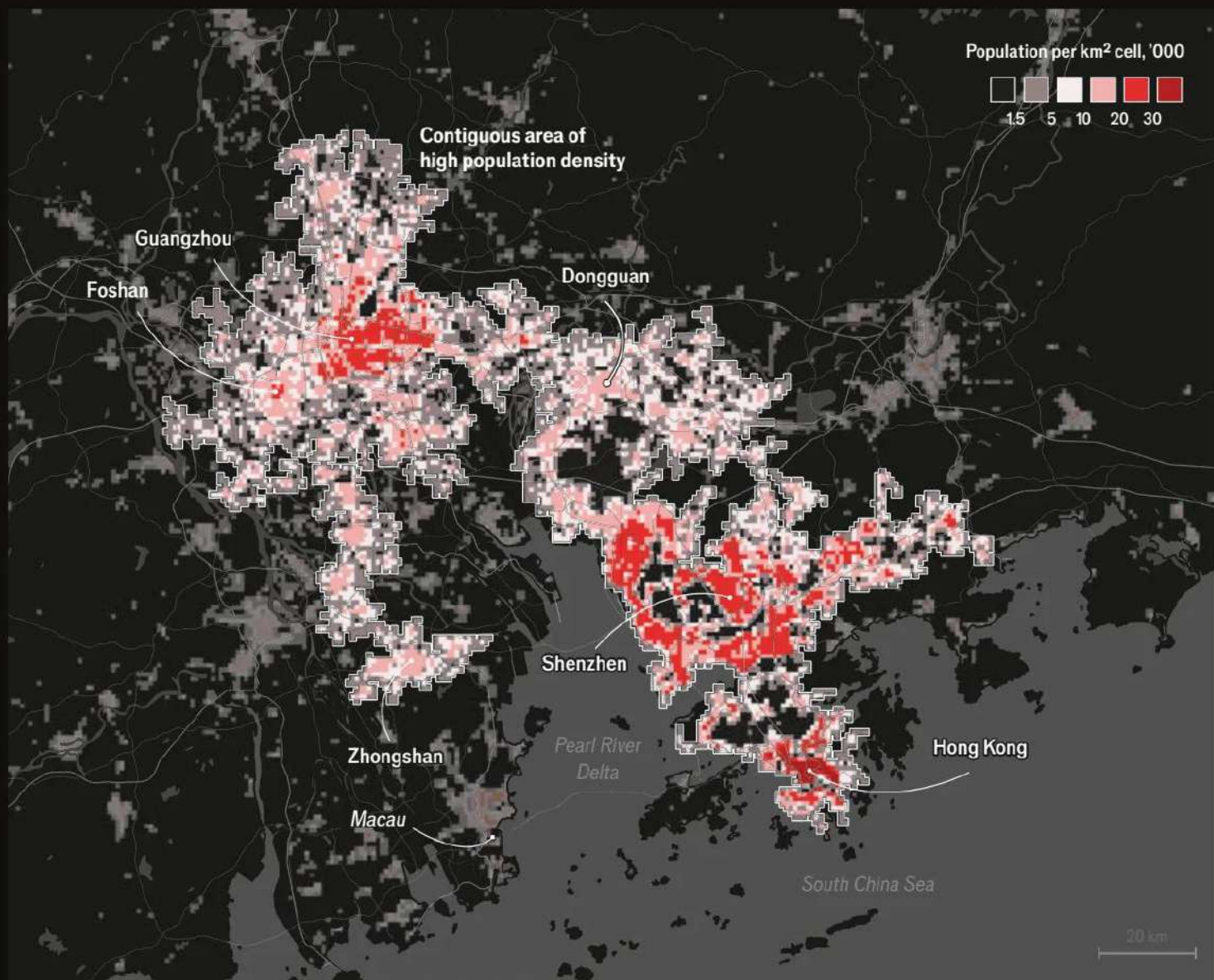
Nominal GDP, 2008=100



Source: IMF

Mapping 2026

Sometimes the best way to understand what's going on in the world is to look at a map. Here are eight maps that highlight and explain events and trends to watch in the coming year, from urbanisation in China to gold in Sudan



What is the world's biggest city?

To an alien gazing down from space, ignoring political boundaries and just mapping contiguous areas of high population density, the answer would be clear: the Pearl River Delta, a chain of southern Chinese cities that have fused into one vast sprawl. Its population is projected to reach 73m people in 2026, just as a regional high-speed railway network, to bind it together, is due to be completed.



Five biggest urban areas

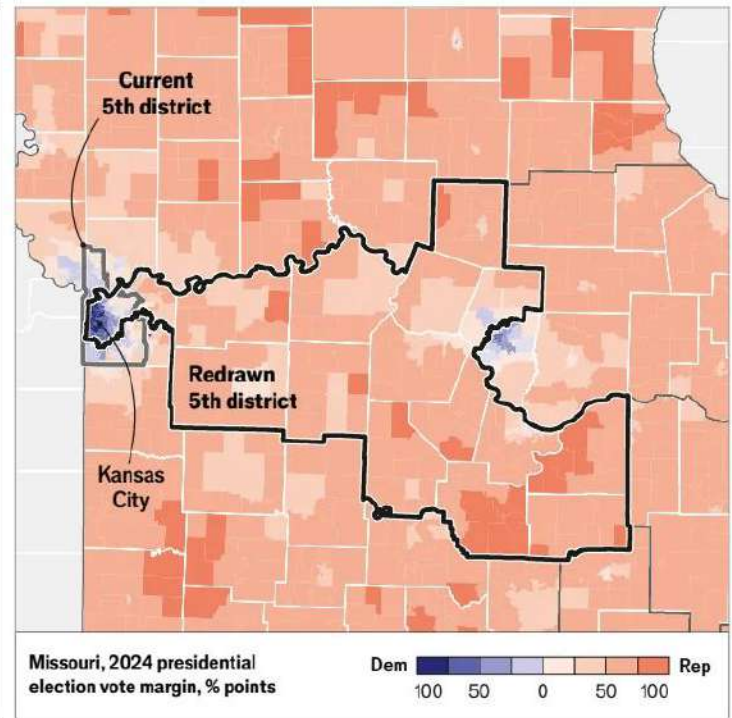
Sources: Worldpop; The Economist

How redistricting could affect America's midterm elections

Unlike most rich democracies, America grants politicians the power to draw electoral districts in many of its states. They use this power to maximise their party's electoral advantage by "packing" opposition voters into a small number of districts, or "cracking" them between multiple districts where their votes are diluted. In Missouri, with the encouragement of President Donald Trump, Republicans cracked heavily Democratic Kansas City to erase a Democratic-held district. Republicans in Texas and Utah have also passed aggressive gerrymanders and more states may follow. Democratic governors, notably California's Gavin

Newsom, have pledged to respond in kind. One of the few restrictions on partisan gerrymandering has been section 2 of the Voting Rights Act, which prevents states from drawing districts which dilute minority voters. A forthcoming Supreme Court ruling could weaken this provision, enabling Republican states in the south to attempt more ambitious gerrymanders and eliminate between six and 12 Democratic-held districts. This could grant Republicans as much as a five or six percentage-point advantage in the House of Representatives if the new maps are in place in time for the midterm elections in November.

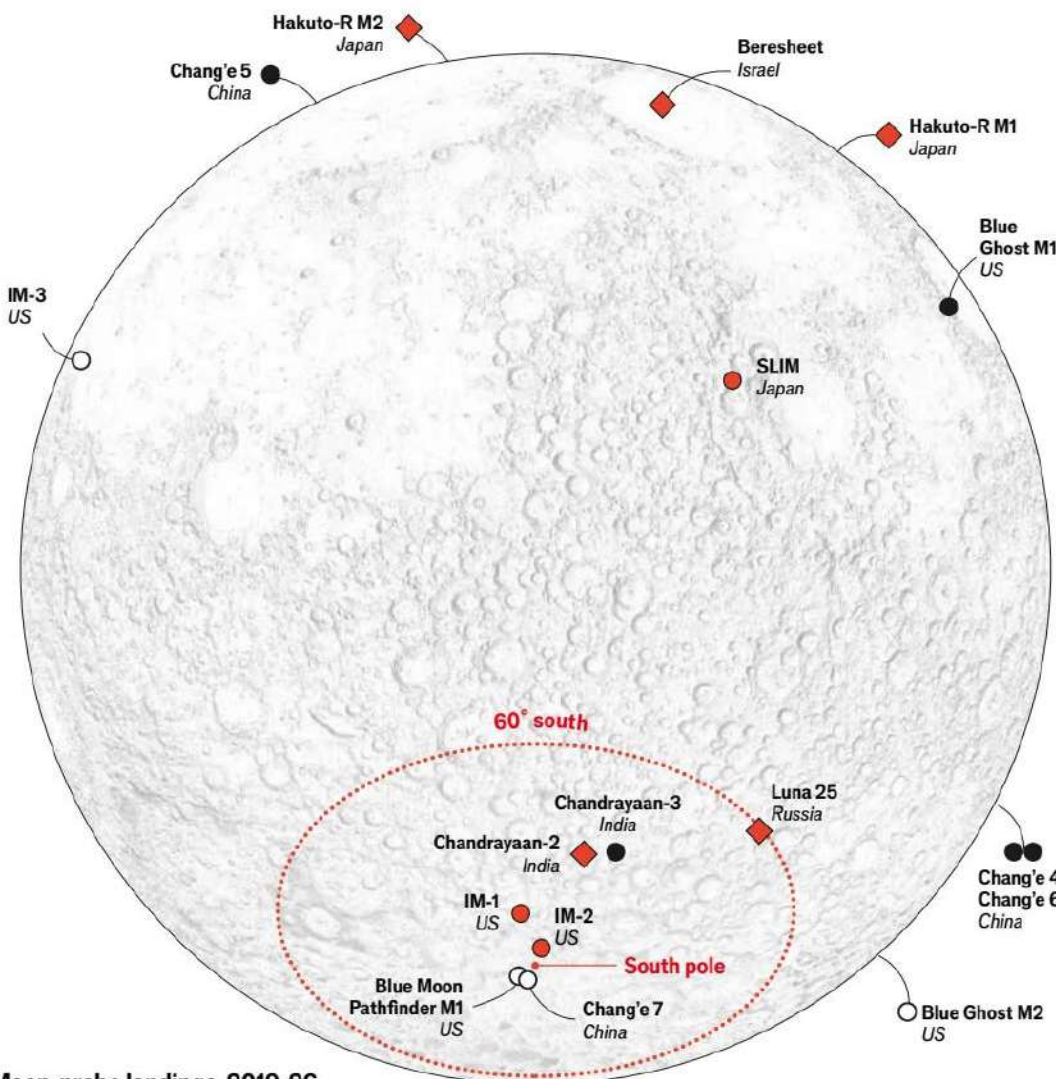
Sources: Missouri House of Representatives; Redistricting data hub



The dangerous allure of the Moon's south pole

Plot the landing sites of space probes sent to the Moon, and you will notice something striking: a cluster around the lunar south pole. Five of the 13 landers that have been sent since 2019 went to that region, and two of the four probes due to launch in 2026 (America's *Blue Moon Pathfinder M1* and China's *Chang'e 7*) will be heading there too. About 40% of all lunar landers over that period, in short, have gone to a region (south of 60°S latitude) accounting for just 7% of the Moon's surface. The south pole is of particular interest because there is thought to be water ice in some of its permanently shadowed craters, which could be used to sustain a future lunar base, and to make rocket fuel. The region is treacherous, however. Two American probes sent to the south pole, in 2024 and 2025, toppled over on the craggy terrain. The same craters that make it such an intriguing destination also make landing difficult. But efforts to explore the region, as America and China race to be the first to send astronauts there within the next few years, will continue in 2026.

Sources: Wikipedia; NASA



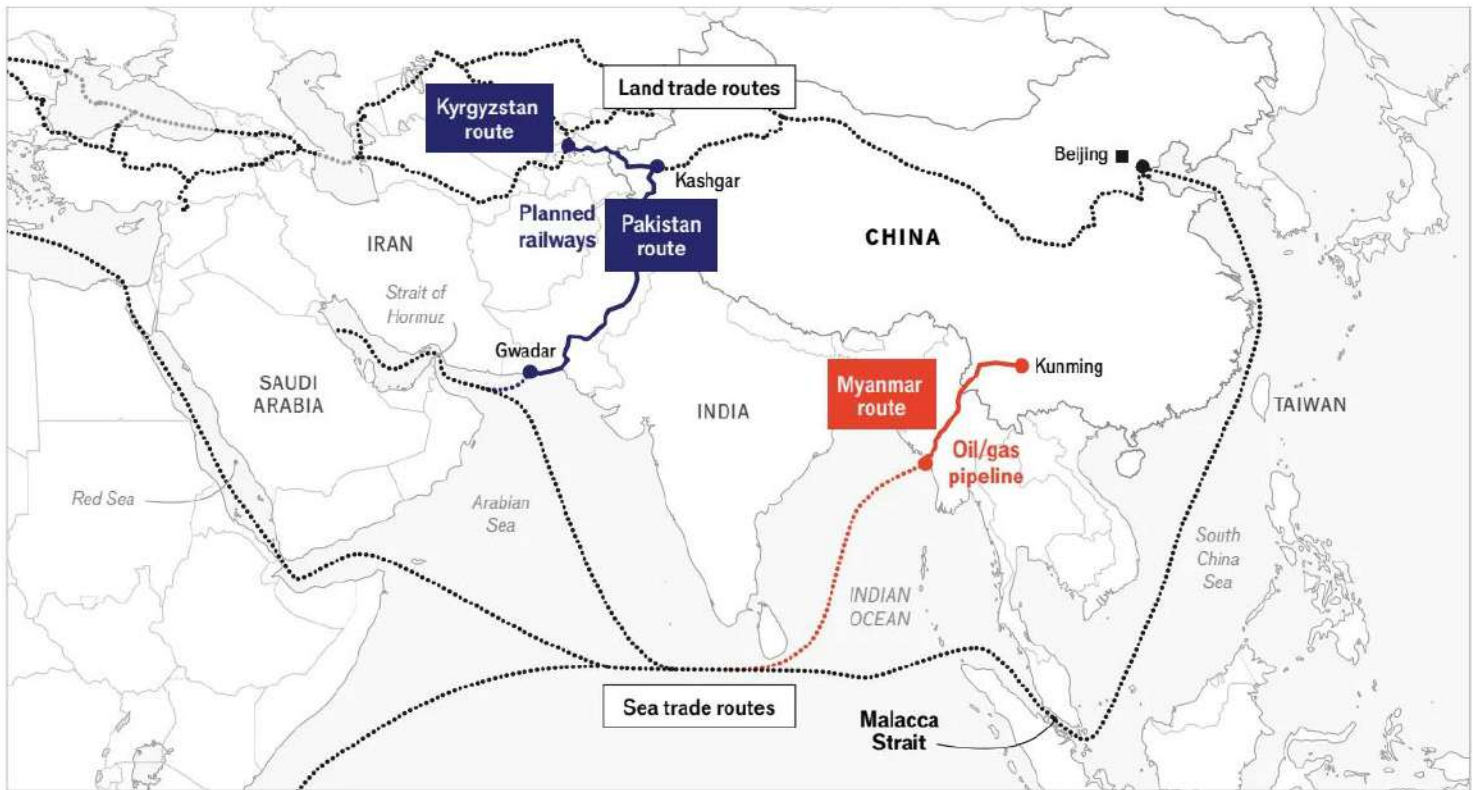
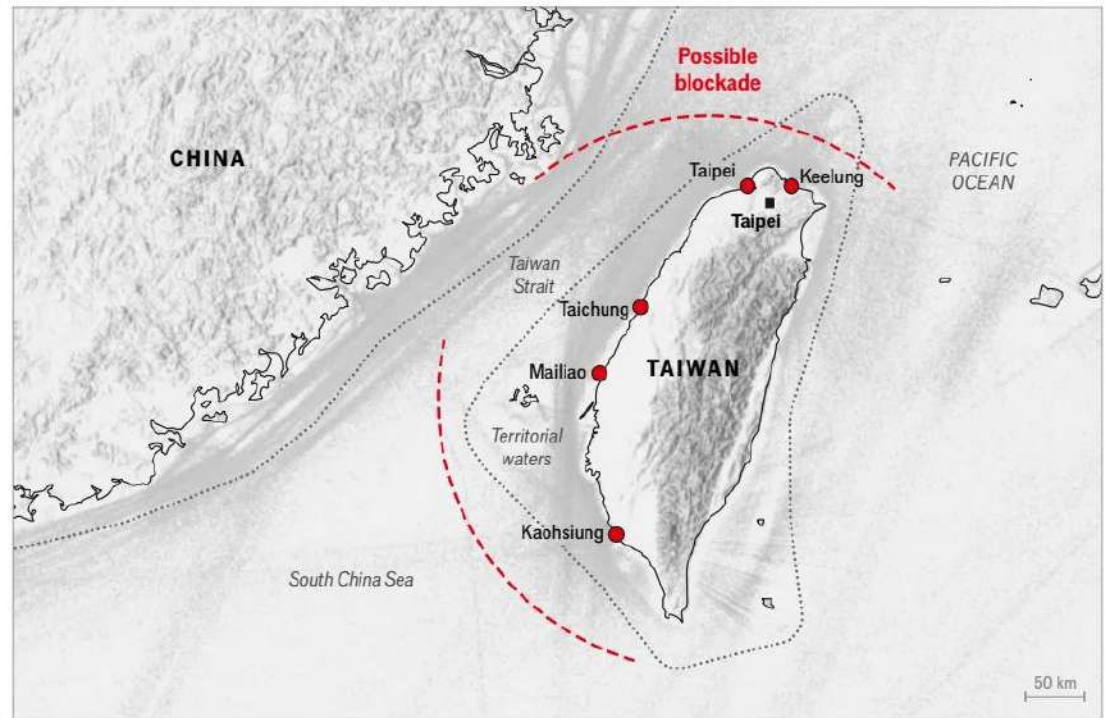
Moon-probe landings, 2019-26

- Successful
- Toppled over
- ◆ Crashed
- Planned for 2026

Why Taiwan's terrain makes it vulnerable

The largest ports in Taiwan are on its northern and western coasts, close to the shipping lanes of the Taiwan Strait and facing the Chinese coast. This makes the island vulnerable to a potential naval blockade by China. Why not expand some of the smaller ports on the east coast, as an insurance policy? Taiwan's craggy terrain makes this impractical. Five mountain ranges cover about 70% of its area, which is why most of the island's population lives in the west and north. Even if a large port were built on the unspoilt east coast, it would still be fiendishly difficult to connect it to Taiwan's main cities.

Source: CSIS



China's infrastructural insurance policies

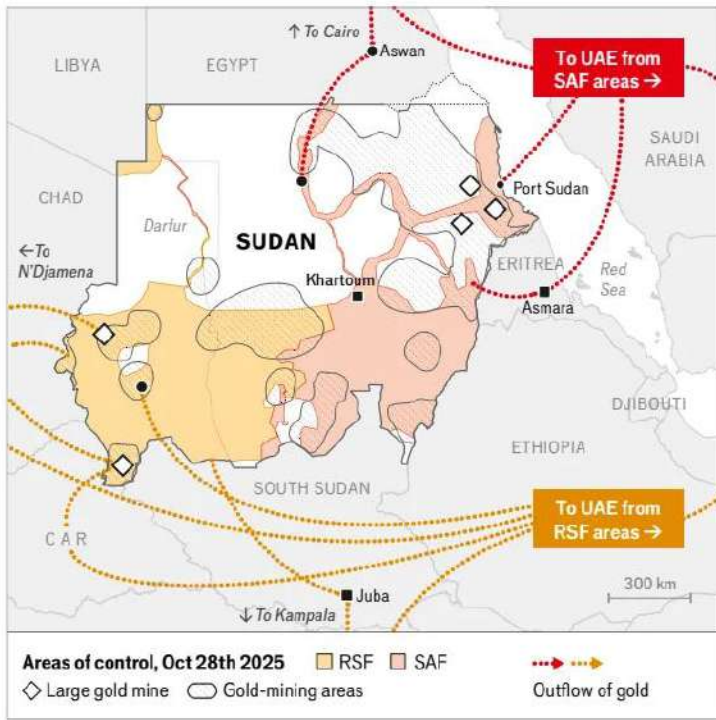
Xi Jinping is believed to want his armed forces to be ready to invade Taiwan by 2027, though a blockade of the island seems more likely than a full-scale invasion (see China section). But either move would trigger retaliation from Taiwan's allies, and might close the Malacca Strait, blocking China's energy

supplies from the Gulf. So China has been investing in infrastructure to provide insurance against this scenario. In Myanmar, it has played both sides in the country's brutal civil war to safeguard its interests, which include protecting a 2,500km oil-and-gas pipeline linking China to the Indian Ocean. That provides an alternative route for energy supplies from

the Gulf, but China's meddling makes an end to the conflict in 2026 less likely. Similar logic explains China's efforts to develop an overland rail link from western China to Pakistan's port at Gwadar, on the Arabian Sea. But the project has been delayed and scaled back amid high costs and concerns that it will leave Pakistan in debt. Another infrastructural insurance policy

protects against different risks: a railway through Kyrgyzstan and Uzbekistan that will link China more closely to Europe, bypassing Russia. This would help China send more goods to Europe as Donald Trump's tariffs hamper Chinese exports to America. It would also provide a hedge against China falling out with Russia.

Source: *The Economist*



How gold is fuelling the war in Sudan

Competition between the Sudanese Armed Forces (SAF) and the Rapid Support Forces (RSF) over the gold trade was one of the factors that led to the outbreak of civil war in Sudan in 2023. Gold continues to shape the conflict. Small-scale gold production has boomed, and gold smuggled out of the country enables the warring parties to buy weapons and influence, and to enrich themselves. Both sides smuggle gold via neighbouring countries: Egypt in the case of the SAF, and South Sudan, Ethiopia and Chad in the case of the RSF. Most of the gold ends up being sold in the United Arab Emirates (UAE). The gold trade complicates the

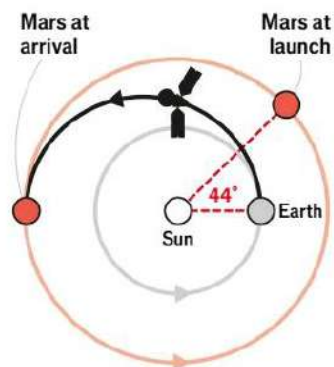
regional dynamics and prolongs the war. For cash-strapped Egypt, the influx of gold provides a welcome economic boost, cements its backing of the SAF and makes it unwilling to press the SAF to negotiate an end to the fighting. Meanwhile, the UAE's importance as a trading hub and an export market for Sudanese gold means the SAF's leader is reluctant to publicly criticise the UAE for supporting the RSF (something the UAE denies), including by supplying weapons in return for gold. For as long as it continues to flow, the yellow metal benefits many parties both inside and outside Sudan, and thus blocks the path to peace.

Sources: Chatham House; Thomas Van Linge

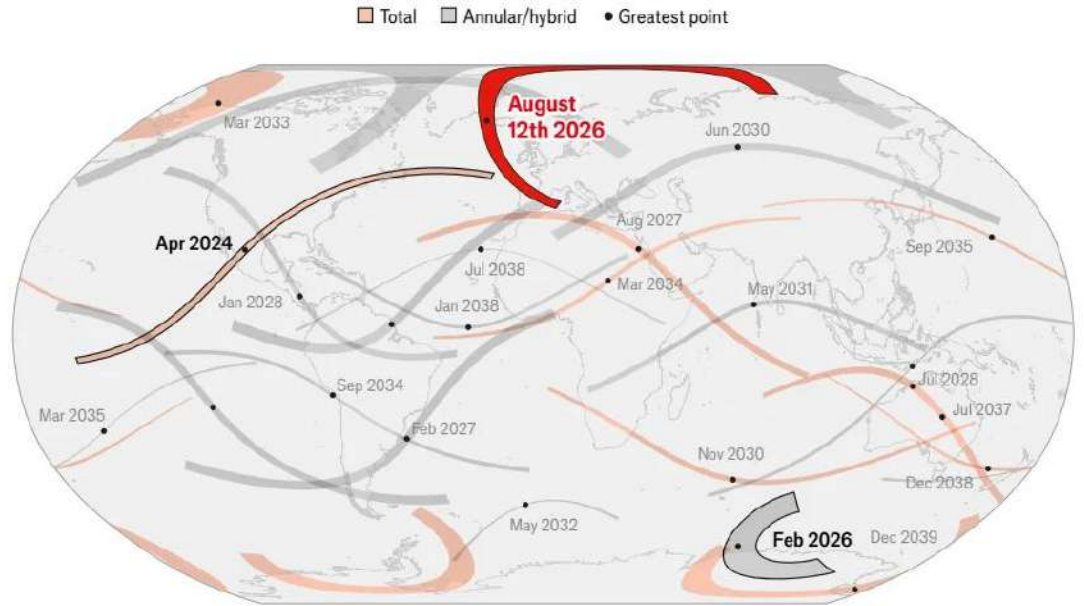
Why it's a good year to go to Mars

The best time to send a spacecraft efficiently from Earth to Mars is when Earth is 44° behind Mars in its orbit. A craft launched at this point can use a Hohmann transfer orbit, the most fuel-efficient path, which is an elliptical trajectory that just touches both planets' orbits. But the required alignment only arises just before Earth "overtakes" Mars on its way round the Sun, which happens once every 26 months. The next such opportunity is in late 2026, when Elon Musk hopes to send one or more uncrewed Starship rockets to the red planet. If he misses that chance, which seems likely, he will have to wait until late 2028.

Source: NASA Jet Propulsion Laboratory



Solar eclipses 2021-40



How the 2026 solar eclipses compare with previous ones

Not all solar eclipses are created equal. As the Moon passes directly between the Earth and the Sun, the path of the lunar shadow during a total eclipse sometimes passes over land. But on other occasions an eclipse may be visible, for most of its duration, only at sea, from boats positioned along the path of totality, or in sparsely populated regions. The Great North American eclipse of

April 2024 was conveniently visible from parts of Mexico, the United States and Canada. But the two eclipses on offer in 2026 will not be so co-operative to human observers. An annular eclipse (in which the edge of the Sun remains visible, like a ring around the Moon) on February 17th 2026 will be visible only from Antarctica, a difficult place to get to at the best of times. And the path of totality for the total solar eclipse on August 12th passes over Greenland, Iceland and

parts of northern Spain. The point of greatest eclipse (when totality lasts the longest, on this occasion for more than two minutes) occurs just to the west of Iceland. But the weather is more likely to be co-operative in sunny Spain, so eclipse-chasers may consider that to be a safer bet. Solar eclipses can be predicted millennia in advance. The weather, alas, cannot be.

Sources: Michael Zeiler; Xavier Jubier

Business



Barriers to entry

Will AI destroy the bottom rung of the career ladder?

Henry Tricks US technology editor, *The Economist*

AMERICA'S CLASS of 2026 will be the first members of the ChatGPT generation to graduate after four years of university. Since early in their first year, they have been able to use generative artificial intelligence to do everything from brainstorming ideas to cheating on their coursework assignments. For some, that may have helped them to sail through college. But beyond the campus, AI threatens a rude awakening as they seek to enter the workforce.

In some white-collar professions, those joining the job market for the first time in 2026 will find themselves up against a cadre of new recruits who are

more informed, can work fiendishly long hours and don't give a hoot about salaries: in short, AI bots. Gartner, a forecasting firm, predicts that by the end of the coming year, 40% of the apps that businesses use to improve their workflows will incorporate AI "agents" built to work alongside, or instead of, humans. That is up from 5% in mid-2025.

The job-market impact of AI may already be visible at the bottom of the career ladder. A study of American payroll data by Eric Brynjolfsson and others at Stanford University found that those aged 22-25 working in the most AI-exposed roles, such as software development and customer service, have seen a double-digit-percentage decline in employment since 2022. In software development the fall was nearly 20%, even as employment for other age groups grew.

Even if AI adoption remains shallow, human-resources departments may be "trying to skate to where the puck is going", says Mr Brynjolfsson. That is borne out by another study by Guy Lichtinger and Seyed Hosseini of Harvard University, suggesting that generative AI benefits more senior employees in companies that adopt it. The researchers found that the headcount of junior employees in such firms had fallen since early 2023, while that of the higher-ups had not. The contraction is chiefly due to a reduction in hiring, rather than an increase in lay-offs.

Not everyone stands to lose from the more widespread use of AI. For those fortunate enough to get a foot in the door, using AI to augment their capabilities can boost productivity, enabling them

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WHAT IF?

Donald Trump says a deal has been agreed for TikTok to be sold to an American consortium, but China has not confirmed this. **What if TikTok is banned in America?** Many analysts think the deal will happen. But there is a chance the app shuts down in its biggest market, with a big impact on content creators and businesses that rely on it.

to catch up quickly with more senior colleagues, just as an Uber driver using a satnav can swiftly become as good as a seasoned cabbie. Like Uber drivers, however, workers need to be beware that augmentation does not swiftly turn into substitution.

AI means that the shape of the firms that graduates join is likely to change. Dan Priest, chief AI officer at PwC, an accounting and consulting firm, says that at least for now, companies adopting AI could change from “pyramids” (large numbers at the base, but few at the top) to “diamonds” (few at the top and bottom, with a big middle layer).

Over the longer term, however, he offers a more hopeful alternative for new entrants: the “hourglass”. Workers fresh out of college may be best able to learn how to take advantage of AI, and could quickly overtake the AI laggards in the midriff.

Those graduating in 2026 therefore have two options to consider. One is to double down on AI

Not everyone stands to lose from the spread of AI

literacy, which is likely to be the most sought-after skill in the coming year. Another is to opt for jobs in fields, such as manufacturing that are less vulnerable to AI disruption than those in the professions and hence easier to enter.

In a working paper, Gustavo de Souza of the Federal Reserve Bank of Chicago used AI-adoption data from Brazil to show that, in factories, AI boosted employment by making machines easier to operate, even as AI automated office work at the expense of employees. “What if it isn't coming for your job, but perhaps offering a career change instead?” he asked.

Whatever option they choose, graduates can make the case to potential employers that firms will be shooting themselves in the foot if they do not hire young talent. Over-enthusiasm for AI may boost productivity in the short term. But in the long term, the future of any firm is in doubt if there are no employees qualified to take over as bosses age. ●

The chips are up

China is innovating around chipmaking restrictions

Shailesh Chitnis Global business writer, *The Economist*

IN JANUARY 2025 DeepSeek, a little-known Chinese startup, stunned the world with an artificial-intelligence (AI) model that rivalled those developed in America. It was all the more striking because it had been developed without access to cutting-edge AI chips from Nvidia, an American firm—a reminder of China's determination to innovate around restrictions. In 2026 the surprises will come not from code but from silicon. Chinese firms will push ahead in two areas long thought beyond their reach: designing and manufacturing powerful AI chips.

America began restricting exports of advanced chips and chipmaking tools in 2019, hoping to slow China's rise.

Domestic tech titans have already begun training AI models on in-house chips

Instead, the curbs spurred a drive for self-reliance. Building a domestic chip industry, especially for the processors used in AI, is notoriously hard. Making them requires advanced lithography machines, which etch circuits on silicon wafers. But ASML, a Dutch firm that is the leading producer of such machines, is barred from selling them to China. That has made it difficult for Chinese firms to produce advanced chips, with feature sizes of seven nanometres (nm, or billionths of a metre) or less. But they are making the most of the tools they already have.

Start with chip design. Nvidia dominates China's AI-chip market, even while holding back its best products. Yet Chinese suppliers such as Huawei, Cambricon and MetaX already account for two-fifths of demand, worth \$38bn in 2025. By 2027 their share could exceed 50% of what will by then be a \$71bn market. Their chips lag behind Nvidia's best, but some are on a par with the cut-down products that American firms are allowed to sell in China. To spur adoption, the Chinese government has reportedly barred its firms from using Nvidia's AI chips. Tech titans including Alibaba and Baidu have already begun training AI models using in-house chips instead.

Chinese designs often sacrifice energy efficiency to

deliver improved performance. Huawei's CloudMatrix system links 384 of its Ascend chips and rivals Nvidia's most advanced offering—but uses more than four times as much power. A more promising approach seeks efficiency gains by aligning chip design more closely with software. In August DeepSeek said it was adopting FP8, a data format that reduces precision but boosts efficiency, letting weaker chips run AI models faster. Cambricon already supports FP8, and the next version of Huawei's AI chip is rumoured to do the same. That could help Chinese designers and software developers close

the performance gap.

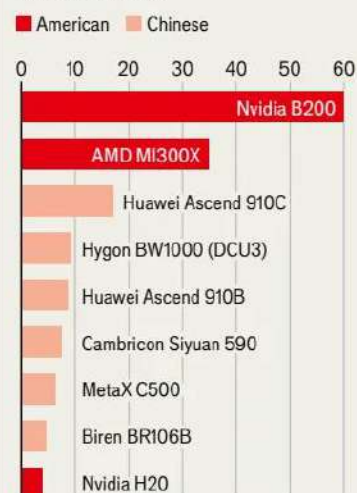
Manufacturing will also make gains. Local production of AI chips is expected to rise sharply in 2026. The effort rests on two firms: Semiconductor Manufacturing International Corporation (SMIC), China's leading foundry, and Huawei, its tech champion. SMIC plans to double its capacity for chips at 7nm or below. Huawei is reportedly building its own chipmaking factories.

Rapidus, a Japanese chip-maker, aims to produce advanced 2nm chips by 2027, using high-end machines from ASML. Chinese fabs, denied such kit, must squeeze more from older ASML tools that are used to make less advanced chips. Yields—the share of usable chips per wafer—will not come close to those of TSMC, Taiwan's world-leading foundry. Yet even at half of TSMC's yields, China's fabs will turn out millions of AI chips, enough to cover much of domestic demand, predicts

SemiAnalysis, a consultancy. The challenges for China's chip independence are many. Its firms may never match global leaders in efficiency or performance. But by the end of 2026 they may be able to meet a lot of their own needs. That would be a profound shift, showing that America's attempts to hobble China's ambitions are failing.

→ Catching up

Selected AI chips, total processing performance*
Nvidia B300=100



*Measure of compute power
Source: Bernstein



All over the shop

Tariff uncertainty is throwing Chinese manufacturing into chaos

Don Weinland China business and finance editor, *The Economist*

FOR ALL the talk of trade deals coming out of Washington, investors in Asia have little to calm their nerves. Japan and South Korea have struck agreements with Donald Trump. India struck a deal in July only to have tariffs ratcheted up a few weeks later. Negotiations with China have swung wildly, nearing a complete collapse before culminating in a meeting between Mr Trump and Xi Jinping, China's president, in late October. A truce was reached but the world awaits a concrete deal.

Until April 2025 the trend for Chinese manufacturing had been clear. Ever more of it was moving to countries such as Vietnam, Indonesia and Mexico. This was a means of dodging the tariffs that Mr Trump imposed on China during his first term. But this time America's president has chosen to wage a trade war on the entire world. As country-to-country trade negotiations drag on and uncertainty lingers, firms do not know where they can safely invest to avoid

huge tariffs. "There is no 'China plus one' strategy any more," says Frederic Neumann of HSBC, a bank, referring to the idea that companies needed only one manufacturing base outside China. "You have to have a plus five or a plus six now."

Early data and company reports show that their main response to this uncertainty has been to slow or stop investments until things become clearer. American firms in China are simply investing less, according to a survey by the American Chamber of Commerce in Shanghai. Despite Mr Trump's insistence that tariffs will encourage reshoring, only 18% of such firms say they will re-route investments back to America, down from 30% two years ago (presumably because import tariffs on building materials and manufacturing equipment mean the cost of building a factory there is now higher).

Even if tariffs were frozen in place, the prospects for moving production from China to other Asian countries do not look promising. America's average tariff rate on goods from China was around 30% after the meeting between the two leaders, not much higher than the average rate across ASEAN countries. Factor in relocation costs, exchange-rate fluctuations and the potential for higher prices of materials and logistics, and many firms may choose to stay put in China.

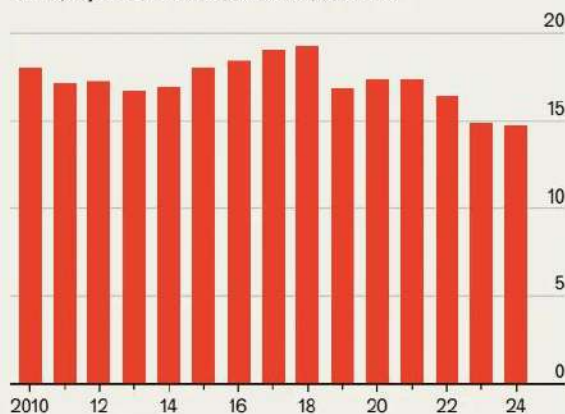
Chinese company bosses are still experimenting with foreign production. Manufacturing projects made up just 10% of China's total overseas direct-investment stock in 2023, but are still the biggest chunk of investments in ASEAN countries, Europe and America, say analysts at the Institute of International Finance, a trade body. Chinese companies' best bet will be to continue to diversify away from exporting to America and to focus on other markets, notably South-East Asia. Chinese brands are already making inroads in Vietnam, Malaysia and Indonesia, where South Korean and Japanese brands are strong. Chinese products have a shot at winning market share because their manufacturing costs are still very low, says Robin Xu of UBS, another bank.

Mr Trump's tariff chaos is likely to persist. Manufacturers will probably decide to sit tight. A "China plus six" strategy that tries to hedge between many different countries' tariff rates will be too expensive and inefficient for most firms to consider. Meanwhile, trade between China and other Asian countries will continue to grow. ●

A "China plus six" strategy will be too expensive

→ Diversifying away

China, exports to the United States, % of total



Source: LSEG Workspace

Elements of strategy

Securing the supply of rare-earth elements will require investment

Anjani Trivedi Global business correspondent, *The Economist*

THE OBSCURE metals known as rare earths—a group of 17 elements that are crucial components in everything from smartphones to electric motors—were in the spotlight in 2025. China weaponised its grip on their production and export (its firms supply nearly 70% of the ore from which they are extracted, and more than 90% of the refined materials). But other countries began to construct their own supply chains. In 2026 Western efforts to reduce dependence on them will intensify.

To break America's reliance on China, President Donald Trump in 2025 ordered his defence department to become a shareholder in MP Materials, a small American rare-earth miner and magnet-maker. The move secured funding from Goldman Sachs and JPMorgan, two American banks. It was a flashy start to the push-back, but it will take time to reduce America's dependence on China for rare earths used in sensitive defence applications such as fighter jets and radar systems. America still relies on China for four-fifths of its rare-earth needs and is

especially reliant on it for heavy rare earths used in motors and semiconductors.

Investment has grown in other rare-earth miners. The share price of Lynas, an Australian producer, has rocketed and in August it said it would raise more than \$500m to help its growth. In October it announced plans to invest in a processing plant in Malaysia. Hastings Technology, an Australian firm, and Wyloo, a company run by Andrew Forrest, an Australian mining billionaire, announced an investment in a rare-earth project in Western Australia in February. A large Canadian firm and a major Japanese one are developing a rare-earth deposit in Namibia.

While those investments ramped up, Western firms spent much of 2025 trying to secure supplies of magnets made outside China. ABB, a Swedish-Swiss firm, has linked up with Noveon Magnetics, based in Texas, for high-performance magnets. Apple, a tech giant, has committed to a \$500m partnership with MP Materials to make magnets from recycled rare earths.

Another approach is to jump to new technology that does not rely on rare earths. After China banned their export to Japan in 2010, Daido Steel, a Japanese steel firm, and Honda, a carmaker, developed a heavy rare-earth-free magnet for hybrid-vehicle motors. Daido's magnet unit aims to triple its sales between 2022 and 2030.

Chinese firms are not standing still. Yunsheng is using a dual-alloy process to create magnets that need fewer rare earths. And China is boosting production at Bayan Obo, one of the world's biggest rare-earth production sites, in Inner Mongolia. In many industries, China has been playing catch-up with the West for decades. But in rare earths, it is the West that is racing to catch up. ●

Whatever next?

Companies will struggle to stay on top of tariff chaos

Guy Scriven Global business correspondent, *The Economist*

A FOG OF uncertainty descended on the corporate world in 2025 as a result of President Donald Trump's tariffs. For much of the year companies operating in America were in wait-and-see mode, hoping that the new tax environment would remain stable for long enough to form a plan. No such luck. In 2026 more firms will have to decide on how to proceed amid uncertainty. Three strategies stand out: passing on price increases to customers, cutting costs elsewhere and rejigging supply chains.

The companies most able to pass on higher costs are those with market heft, strong brands or massive scale. Giants such as Walmart and Target, and purveyors of high-end goods, such as Hermès and Ferrari, have done so. By contrast, firms in competitive industries, such as small grocery stores, will have to absorb some costs. A survey by the Federal Reserve Bank of New York found that about half of local manufacturing firms had increased the prices of tariff-hit goods.

Hence the second strategy: belt-tightening. In the first half of 2025 mergers-and-acquisitions activity declined among pharmaceutical firms, retail companies and carmakers, says PwC, an auditor. Hiring has slowed, too. Big tech firms, such as Amazon and Microsoft, have been thinning their ranks, in part because they think workers can be replaced by artificial intelligence. According to figures from S&P Global, a data provider, two-thirds of the firms in its world stockmarket index reduced their headcount in the year to July.

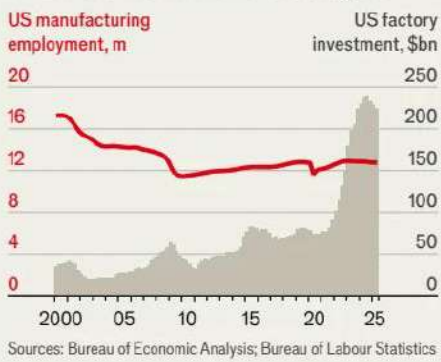
As a result, businesses are holding on to more cash to give themselves room to manoeuvre. Berkshire Hathaway has roughly doubled its cash position to \$340bn since the end of 2023. Non-financial companies in the same S&P index increased their cash holdings by 6% in the 12 months to July 2025.

As for supply chains, a survey by Kearney, a consulting firm, found that 28% of companies want to rewire theirs by 2030 so that goods sold in one region are mostly



↑ Rare earths, California-style

→ Make America make stuff again



made there. Many firms are already doing this, or discussing it. Lots of companies are also promising to invest to revive America's manufacturing base, in an effort to please Mr Trump and win tariff exemptions. Tech titans and pharma giants account for all of the ten biggest pledges. Apple has promised \$600bn; Nvidia \$500bn. The pledges are having little impact so far. American factory investment, which surged under President Joe Biden, fell by 5% in the 12 months to July 2025. Manufacturing employment is falling, too.

Many American companies have accelerated moving their production out of China. Enrique Lores, the boss of HP, an electronics manufacturer, said in May that all of his firm's products sold in America will soon be made outside China. Apple aims to move most of its American-bound iPhone manufacturing from China to India by the end of 2026. Yet the duty on Indian exports to America may be higher than the one applied to Chinese goods.

The chaos has left some firms scrambling for alternatives to the American market. Temu and Shein, two Chinese e-commerce upstarts, are focusing on Europe. NOK, a Japanese auto-parts supplier is now planning to sell more to Chinese companies. The trade war may create opportunities for European firms, as Chinese companies sour on American goods. In a survey of its members, the EU's Chamber of Commerce in China found that, even though the trade war hurt firms, many saw benefits. Some 19% of respondents were getting more business from Chinese and foreign customers operating in China because of tariffs. And 36% said that they had not yet benefited but expected to do so.

Meanwhile, data from OpenSecrets, an NGO, show that spending in America on lobbying rose by 12% in the first half of 2025, compared with the same period in 2024. Bristol Myers Squibb and Eli Lilly, two pharma giants, are on track to spend twice as much on lobbying in 2025 as in 2024. So are other tariff-struck firms such as Nvidia. While many are fretting about 2026, lobbyists are rubbing their hands. ●

Gas and electricity

Will superfast, super-expensive electric vehicles catch on?

Simon Wright Industry editor, *The Economist*

CAR BUYERS at the top of the market are an exacting breed. No wonder. An entry-level supercar costs at least \$200,000 and the extra performance and exclusivity of the next step up, the hypercar, usually begins at \$1m. At that price, the well-heeled want eye-catching design and the drama of an attention-grabbing petrol engine. In 2026 it will become clear whether such extravagant machines can embrace the era of electrification, in which the growl of multiple cylinders gives way to the whirr of an electric motor.

Ferrari plans to launch its first fully electric vehicle (EV), the Elettrica, in the spring. Yet batteries are already part of the equation for both it and Lamborghini, which count as volume manufacturers in carmaking's upper league. The two Italian firms, which sold 14,000 and 11,000 cars respectively in 2024, have long embraced hybrid technology, using batteries to boost already outlandish performance, rather than to tame emissions. Relying solely on battery power has worked for Rolls-Royce, which regards engine noise as an intrusion. Its Spectre EV was the British

firm's best-selling model in Europe in 2024.

Replacing petrol with batteries in sports cars has met with less success. Rimac—a Croatian firm whose EV technology is so highly regarded that Porsche bought a large stake—launched the Nevera in 2021, but has sold only around half of the 150 cars costing over \$2m. Sales figures are unavailable for the Battista, a similarly priced EV hypercar made in Italy by Pininfarina, a firm owned by India's Mahindra Group, so it is unclear if it has met its sales target of 150 cars.

Buyers of fast cars may just not be as interested in electric vehicles as other buyers. The Porsche Taycan, an electric sports car launched in 2019 at the relatively modest starting price of just over \$100,000, has underwhelmed. Porsche's overall sales in 2024 fell by 3% worldwide, but sales of Taycans plummeted by 49%. And the remarkable acceleration of relatively cheap EVs means there is less differentiation from more expensive ones.

Electric hypercars boast power that is off the scale compared with petrol-powered models. The Nevera packs nearly 2,000 horsepower, ten times as much as an average saloon car and over 700hp more than the Ferrari F80, the firm's latest hybrid hypercar. The question is: Who will buy them? New hypercars are generally snapped up by collectors who like flashy motors, but of whom there are probably only a few thousand. Even Ferrari may be having second thoughts about electrification. Pagani, an Italian hypercar-maker, has given up on plans for an electric version of its \$3.5m Utopia because of lack of customer interest. The growth in sales of ordinary EVs has slowed as governments have withdrawn incentives. Moves at the flashier end may be slowing, too. ●



↑ *Make or brake*



Kaboom times

Defence is a bright spot in Europe's bleak industrial landscape

Vendeline von Bredow Senior Germany correspondent, *The Economist*

WHEN, IN LATE August, Rheinmetall, Germany's biggest defence firm, opened a new ammunition factory in Unterlüss, near Hanover, the secretary-general of NATO, two German government ministers and Bulgaria's president were in attendance. Built in just 15 months at a cost of €500m (\$580m), it will produce 25,000 rounds of artillery ammunition in 2025, rising to 350,000 rounds a year by 2027. It will be "the largest ammunition plant in Europe, if not the world", declared Armin Papperger, Rheinmetall's chief executive.

His firm in particular has benefited from Europe's race to rearm after Russia invaded Ukraine in February 2022. Its share price has rocketed from €37, when Mr Papperger took over as boss in 2013, to over €1,700 in October 2025. It bought Expal Systems, a Spanish manufacturer, and is setting up new factories in Ukraine, Bulgaria, Lithuania and Romania. It is Ukraine's biggest supplier of ammunition.

Europe is rearming at its fastest pace since the end of the cold war. According to McKinsey, a consultancy, European defence spending will increase by a cumulative €700bn-800bn between 2022

and 2028. Germany alone plans to spend €215bn a year to build up its army.

These are big numbers. Can Europe's defence industry deliver? After years of underinvestment by western European countries in particular, many arms suppliers became boutique firms focused on exports to other parts of the world. Despite the rapid expansion of the past three years, annual sales of €10bn by Rheinmetall or €4bn by KNDS (a Franco-German maker of armoured vehicles) are still dwarfed by those of America's Lockheed Martin (\$71bn) and Northrop Grumman (\$41bn). Smaller European firms can struggle to scale up quickly, as banks are still hesitant to lend to them. This has prompted European governments to look elsewhere. Some 48% of European defence spending goes to non-EU suppliers.

That is now changing, and the shift will accelerate in 2026. Nearly half of the €137bn that Germany invested in military gear from 2020 to 2024 went to German companies, according to the Kiel Institute for the World Economy, a think-tank. Mr Papperger is confident that he can ramp up production to meet the rising demand. In July 2025 a Rheinmetall factory in Weeze, North Rhine-Westphalia, started making parts for F-35 fighter jets in partnership with Lockheed Martin. In September the firm announced the takeover of the warship division of Lürssen, a shipyard in Bremen. Rheinmetall is aiming for annual sales of €40bn-50bn, which would catapult it into the big American league.

Even so, the Kiel Institute finds that European defence firms need to do much more. Its analysts reckon that a six-fold increase in production of tanks, missiles and combat jets is needed to match the pace of Russian rearmament. That tempo is possible only in a war economy. ●

Free kicks

America is now the biggest market for international football

Tom Wainwright Media editor, *The Economist*

THE LAST time America hosted a men's World Cup, in 1994, purists sniffed that it was not a proper footballing country. They had a point. Team USA had only recently ended a four-decade stretch of failing to qualify for the tournament. In an unfortunately symbolic moment broadcast around the world, Diana Ross, singing at the ritzy opening ceremony, took a staged penalty kick and somehow missed.

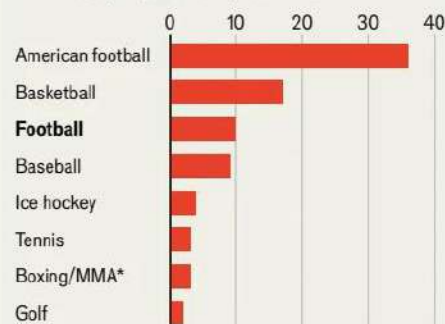
As America prepares to co-host the competition again in 2026, along with Canada and Mexico, things look different. Its men's team has improved (though they are still 80-1 outsiders to lift the golden trophy in the summer). Its women's squad has become the most successful in the world, notching up four World Cup wins in the past 35 years.

The big change, however, has taken place among the fans. Football—all right, soccer—still trails behind American football, basketball and baseball as the country's fourth-most followed sport, according to surveys by Ampere Analysis, a research firm. But when asked which sport is their absolute favourite, 10% of Americans now say soccer, making it narrowly more popular than the sport sometimes referred to as the national pastime, baseball (see chart).

Market values reflect this growing popularity. Spending on football media

→ Net gains

United States, fans' self-declared favourite sport, Q4 2024, % of total



Source: Ampere Analysis

*Mixed martial arts

rights in America has risen four-fold in the past decade and is now greater than the amount spent on baseball rights, notes Daniel Monaghan of Ampere. He points out that, whereas America's baseball fans focus on a single league, Major League Baseball, its football fans pay to watch everything from the English Premier League to Spain's La Liga, driving up the sport's total value.

America has become the biggest foreign market for the four largest European leagues. At the previous World Cup, in 2022, it was the single most valuable territory, accounting for 15% of total rights spending.

The bonanza is part of a broader inflation in the value of sport. The streaming wars have driven up the price of content of all kinds. Sport has become

MLS remains a dull watch, despite its sprinkling of foreign mega-stars

especially precious: as streaming splits audiences into niches, live sport is one of the few things that still attracts the large, concurrent audiences advertisers prize. Some of the world's richest companies are competing to air these scarce events. Apple has acquired the global rights to America's Major League Soccer (MLS). Netflix has the domestic rights to the next two women's World Cups.

Football still struggles in America, though. MLS remains a dull watch, despite its sprinkling of foreign mega-stars such

as Lionel Messi, who plays for Inter Miami. At the Club World Cup, which America hosted in 2025, only one American team got beyond the group stage (and was then thrashed 4-0 by Paris Saint-Germain). Without better local teams, football is unlikely to claim the same cherished spot in American culture as home-grown sports. And even then, it might still be a tall order.

World Cup mania may inspire more participation, as it did in 1994. And more live spectacles are on the way. Los Angeles will host more football at the Olympics in 2028. And three years later the women's World Cup will be held in America and Mexico.

America may still have some catching up to do when playing men's football. But in watching, it is already world-class. ●

Bouncing back

Sensible prices and fresh designs will help the luxury industry rebound

Avantika Chilkoti Global business correspondent, *The Economist*

IT HAS BEEN a bleak few years for purveyors of fancy frocks and pricey handbags. In their two biggest markets, America and China, economic uncertainty has made shoppers nervous about spending. Bain, a consultancy, reckons global sales of personal luxury goods declined by 2-5% year on year in 2025. The share price of LVMH, the industry's behemoth, slumped in the spring before rebounding, but is still down for the year.

In 2026, however, the luxury industry is expected to regain its sparkle. Analysts at UBS, a bank, predict sales will pick up. Those at HSBC, another bank, see "some light at the end of the tunnel", particularly as Chinese shoppers regain their appetite for luxury goods. As shoppers start splashing out, which brands will do best?

The downturn in luxury sales has not been uniform. Brands such as Gucci, which relied on "aspirational" middle-class customers, have struggled. Meanwhile, those that target the richest of the rich have done well. Hermès, a producer of \$10,000 handbags, which prides itself on in-house production and careful price rises, has reported strong revenue growth.

That holds lessons for others.

Brands that do well in 2026 will share a few characteristics. They won't be raising prices at an eye-watering pace. Many, like Dior and Chanel, increased prices sharply after the pandemic, when demand was strong. Analysts at Bernstein, a broker, reckon many groups are selling their products for 15 times the manufacturing cost, up from ten times before the pandemic. Shoppers are not impressed.

Second, successful brands will have greater control over their supply chains. Young consumers, in particular, keep an eye on a brand's social and environmental impact. Now, analysts say, luxury groups are trying to buy up suppliers and improve transparency, to avoid bad press.

Finally, luxury houses producing fresh designs will be rewarded. Many failed to refresh their creative teams for years. But a game of musical chairs in 2025 changed all

that. Brands from Chanel and Gucci to Balenciaga and Versace will enter 2026 with new creative bosses. That is driving interest in new collections, which, brands hope, will translate into higher sales. Federico Marchetti, the former boss of Yoox Net-a-Porter, a luxury e-tailer, points out that there were more independent brands producing fewer collections and doing more innovative work in the past.

And even as the market for fancy goods in the West stagnates, a new generation of customers is emerging in other regions, notably the Middle East and Asia. In India, the population earning over \$10,000 per year, currently the top income quintile, is expected to grow by 15% a year between 2024 and 2030, according to UBS—far outstripping population growth. As long as there are more well-off people looking to spoil themselves and show off their wealth, there will be demand for designer wares. ●





Hot water

Geothermal energy looks set to go from niche to necessary

Vijay Vaitheeswaran Global energy & climate innovation editor, *The Economist*

IF YOU WANT a breathtaking display of the grandeur of nature's past, visit Zion. This national park in south-western Utah, with its striking red canyons and craggy peaks, is one of America's most visited outdoor places. If you want a glimpse of the power of harnessing nature in the future, you need to travel north to a more desolate spot. Just outside the town of Milford you will find a blustery plain ringed by ridges where an energy revolution is quietly taking place.

This is where Fervo Energy, a buzzy startup backed by Bill Gates, Google and other high-powered investors, is showing that techniques borrowed from the oil business could transform the moribund geothermal industry into an energy source bigger than nuclear power. Apart from in hot zones like Iceland and New Zealand, conventional geothermal power has largely been limited to the few places where intense heat, pressure and water are found close enough to the

surface to be tapped by conventional drilling techniques. These limitations explain why, over a century since its first use to make power, in Italy, geothermal provides less than 1% of global electricity.

Pioneers of "enhanced geothermal" techniques believe they can apply innovations from the shale industry, such as fracking and multilateral drilling, to enable geothermal almost anywhere. At the forefront is Fervo. The firm proved that its technology works at a pilot plant in Nevada. Now it has scaled up operations dramatically at the Utah site and, in doing so, shown a 70% reduction in drilling time year on year (see chart) while achieving high temperatures and flow rates. In 2026 it will start to deliver energy to the grid. Fervo is contracted to supply 320 megawatts of power to Southern California Edison, a utility, in the largest-ever commercial contract for geothermal power.

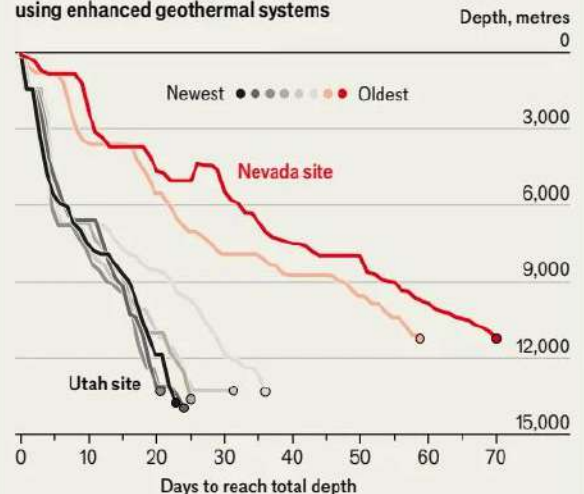
Fervo has competitors in the enhanced-geothermal sector, but other novel approaches are also making headway. "Closed loop" systems do not consume water or rely on fracking. Rather, they use more drilling and more pipes (thus raising costs) to create an enclosed system for circulating a working fluid at depth. Eavor, a pioneering Canadian firm, plans to deliver heat and power soon using this approach at a facility in Bavaria in southern Germany. XGS Energy, an American closed-loop startup, struck a deal recently to supply power to Meta, which owns Facebook.

Unlike wind and solar, geothermal energy provides "firm" power around the clock. Sage Geosystems, an American startup which also has a deal with Meta, is pioneering its use for energy storage. In Texas the firm pumps water into fracked wells under high pressure to store energy, and releases it to turn a turbine as needed, in effect creating a giant battery.

America's Department of Energy has revised its outlook to suggest that by 2050, geothermal technologies, which generate less than four gigawatts (GW) today, could provide up to 300GW of energy, or roughly triple the current output of the country's entire nuclear fleet. The International Energy Agency has revised its long-term forecast to suggest that the global potential of geothermal by 2050 is over 800GW, up from 15GW today. 2026 looks set to mark the start of the great geothermal renaissance. ●

→ Digging down, bubbling up

Fervo Energy, drilling performance using enhanced geothermal systems



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The United States Out of the Shadows Index



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Economist Impact's 2025 United States Out of the Shadows Index, supported by World Childhood Foundation USA, delivers a sobering verdict: US states earn an average score of just below 50 out of 100, reflecting widespread fragmentation and critical deficits in efforts to end child sexual abuse and exploitation.

Our research identifies two systemic failures. First, most states treat prevention as optional, not essential, undermining vital safeguards like mandatory personnel training and institutional screening. Second, response systems fail survivors. Outdated statutes of limitations deny justice to those who disclose abuse decades later, while essential support services remain chronically underfunded.

With cases of child sexual abuse and exploitation accelerating online, one in six young people are now exposed to online sexual abuse before they turn 18. Reports of AI-generated child sexual abuse material to the country's largest child protection organisation have surged by 1,325% in the last year alone.

The index provides a clear roadmap for policy reform, demanding states move beyond reactive, piecemeal efforts to build co-ordinated, trauma-informed, survivor-centred protection systems. America can do more to address child sexual abuse and exploitation if leadership at all levels of government come together with private-sector stakeholders, parents and educators, and child protection professionals to develop, co-ordinate and finance a holistic approach.



Learn how to help protect children.

Download the report at
economistimpact.com/out-of-the-shadows-index-us

Finance



Prepare for market discipline

The world's public finances look ever more perilous

Henry Curr Economics editor, *The Economist*

IN NORMAL TIMES the year ahead would look like a good one in which to hold government bonds. Central banks, including America's Federal Reserve, have been cutting interest rates. Global growth has slowed and China is suffering from deflation. America's stockmarket valuations have reached extraordinary highs from which it is difficult to imagine further gains. Aren't bonds the better bet?

And yet the world is in a fiscal mess. In 2026 advanced economies' debt-to-GDP ratio will exceed 110%. Despite tariff revenues, America's government will probably borrow at least 6% of GDP. As central

banks have cut interest rates in recent years, long-term yields, which move inversely to prices, have not always co-operated. Even low-rate Japan does not look safe any more. Its 30-year yield recently hit an all-time high.

A fiscal accident in one of the world's major economies is getting more likely. The most vulnerable such country is France. It combines high public debt, a big budget deficit and high taxes, leaving minimal space to raise taxes without hurting growth. Relatively modest attempts to reduce borrowing have failed. The country is now on its fifth prime minister in two years as it grapples with an intractable budget.

Dangers loom in America, too. In May 2026 President Donald Trump will replace Jerome Powell, the chair of the Federal Reserve. One of the frontrunners, Chris Waller, was appointed to the Fed board by Mr Trump in 2020, and argued in mid-2025 for early interest-rate cuts. He is a serious economist and no stooge: his forecasts have proved notably prescient more than once. Presidents have appointed monetary doves like Mr Waller before, only to be disappointed by their steadfast commitment to fighting inflation once in office. The more credible the Fed's commitment to its inflation target remains under its new chair, the likelier it will be that America's long-term bond yields fall if the central bank cuts short-term rates.

Yet it is not just Mr Waller who matters. The surprise departure of one governor has already opened a seat on the Fed's seven-strong board which the president has filled, for now, with Stephen Miran, ►►

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WHAT IF?

Investors' enthusiasm for AI startups is at fever pitch. The biggest is OpenAI, the world's most valuable startup, valued at \$500bn.

What if OpenAI goes public?

With OpenAI having resolved its complicated corporate structure, its stockmarket flotation might be the biggest ever—provided the AI bubble doesn't burst first.

▶ one of his economic advisers. That seat must be filled again in January 2026. Mr Trump's attempt to sack Lisa Cook, another governor, which is held up in the courts, could yet free up another position. And when he leaves the Fed chairmanship Mr Powell will have to decide whether to continue as a governor. If Mr Powell leaves the Fed entirely, Mr Trump could have three seats to fill, giving him considerable influence.

Whatever happens at the Fed, America's inflation rate will rise because of Mr Trump's tariffs, the effects of which are still working through the economy. Though most economists think it will fall back eventually, it may take a while—long enough, combined with threats to the Fed, to worry bond investors.

Elsewhere inflation is more contained (Britain is a notable exception). But even countries in which price rises are under control face a world of scarcer capital and, therefore, higher interest rates. Central banks have been reducing their bond holdings as they unwind their quantitative-easing schemes. Pension funds, especially in Britain, have been reducing their own stakes in the bond markets, too.

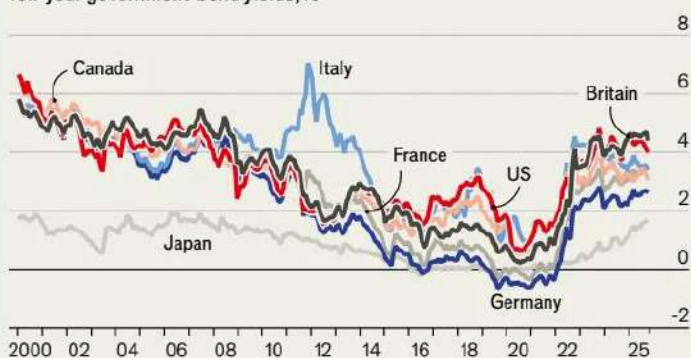
Meanwhile, America's tech giants are guzzling capital and sinking it into infrastructure for artificial intelligence (AI). If equity markets are close to being right about AI's economic impact, it should raise investment across the board. Because capital markets are global, this capital-expenditure spree will push up rates everywhere, causing pain for governments even in countries that do not adopt AI.

A fiscal accident in one of the world's major economies is becoming more likely

A capital shortage makes borrowing more expensive, which in turn raises the possibility of a panic over sovereign debt that pushes up risk premiums, too. When Britain faced such a sell-off in 2022, the government corrected course. But as in France, many politicians are fending off populist challenges that make belt-tightening difficult. Western politics is fraught, and perhaps not prepared for the battle over resources that is coming when governments discover they must, eventually, live within their means. Bond investors have to hope that the threat of a crisis will focus minds. ●

→ Tighter times

Ten-year government-bond yields, %



Sources: Federal Reserve; LSEG Workspace



Rock bottom

Commodity prices could hit new lows in 2026

Matthieu Favas Commodities editor, *The Economist*

SINCE 2020, commodity markets have been drunk on adrenaline as pandemic-era disruptions, Trump tantrums, war and sanctions rocked supply and demand. In 2026 a general sobering-up may prevail. Individual commodities will fall into one of three buckets.

The first will include fuel and food, demand for which will remain subdued as American tariffs hurt GDP growth and China's economic woes continue. Supply, by contrast, looks plentiful. More natural gas is being produced than ever, with new projects being completed in America, Qatar and elsewhere, just as the warming climate makes harsh winters less likely. Bumper wheat, corn and soybean harvests in 2025 have boosted global stockpiles.

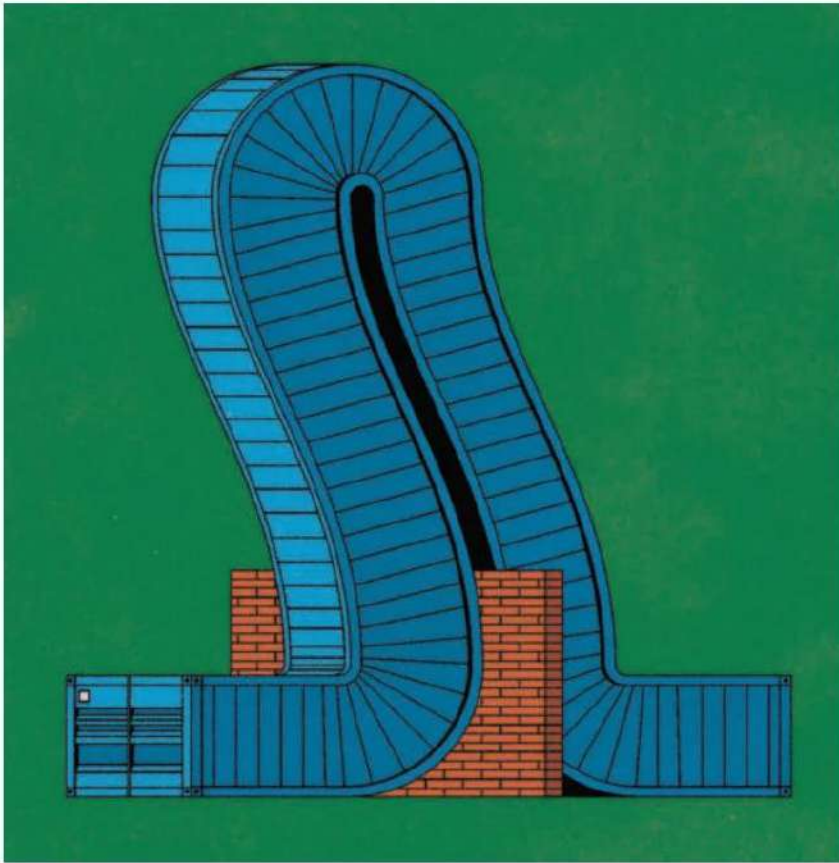
Most emblematic of this category is crude oil. Absent a fully enforced American blockade against Russian oil—which looks unlikely, because Donald Trump will want to keep fuel prices low ahead of midterm elections—the world will be swimming in petroleum, as Gulf countries

continue to restore some of the output they cut in recent years. The question, for depressed commodities, is whether they could become so cheap that bargain-hunting starts to rekindle demand.

Gold dominates the second bucket, of commodities in high demand. Appetite for the yellow metal has rocketed as political uncertainty, geopolitical crises, trade shocks and the prospect of lower interest rates in America fuel investors' search for a safe haven. After surging past \$4,000 an ounce in 2025, its price may well exceed \$4,500, buoyed by political surprises and high inflation in America, and by instability worldwide. Retail investors and central banks alike will continue to buy gold. Silver, also in demand, will continue to shine.

The fate of the third bucket, of industrial metals, will determine whether commodities, as an asset class, manage to hold steady or tilt into deflation. That bucket is led by copper, a traditional barometer for global economic health. In July 2025 the red metal's price hit record highs on America's main commodity exchange after Mr Trump announced 50% tariffs on copper imports. It fell back when he said the tariffs applied only to copper products, not raw materials, before rising again, amid fears the duties could be expanded.

Copper will continue to be buffeted by volatile forces in 2026. Tariffs will hit the global economy. And uncertainty may boost the dollar, sapping the buying power of manufacturers paying for copper in other currencies. But Fed cuts could achieve the opposite. Global sales of electric cars might accelerate fast enough to devour vastly more copper, used in batteries, wires and motors. Supply could be disrupted and new projects delayed. And perhaps Chinese factories will bounce back. Investors will be hoping that copper can cure the hangover gripping commodities as the year goes by.



Carry on trading

American tariffs have reshaped, but not reduced, global trade

Alex Domash Economics correspondent,
The Economist

IT WAS A bruising year for free trade. Donald Trump's "Liberation Day" in April 2025 sent shockwaves worldwide, as tariffs hit allies and rivals alike. His announcement shattered what remained of the rules-based trading system, exposing the weakness of the World Trade Organisation (WTO) and confirming America's retreat as its guardian.

Yet even as America pushed average tariffs to their highest in a century, global trade kept moving. In October the WTO raised its forecast for goods-trade growth in 2025 to 2.4%, from 0.9% earlier in the year. Exporters have adapted fast. Exports from China, the main target of Mr Trump's tariffs, rose by 6% in the first nine months of 2025 compared with a year earlier, even as shipments to America fell by more than 15%. Its exports to the European Union climbed by nearly 8%, to the Association of South-East Asian Nations

(ASEAN) by a sixth, and to Africa by a quarter, as China re-routed its industrial surplus. Others followed suit. Vietnam is sending more farm goods to Europe, India is shipping more textiles to the Gulf, and Brazil is selling more beef to China. But such agility has limits.

The outlook for trade in 2026 will hinge on how the rest of the world responds to America's tariff wall and China's industrial glut. For many, protectionism is becoming the path of least resistance. Mexico, eager to stay in Mr Trump's good graces, has announced a 50% duty on Chinese cars. Others are moving defensively, fearing a flood of diverted goods. The EU is preparing to cut steel quotas by nearly half and double levies to 50%. Across South-East Asia, governments are weighing moves to shield local firms from Chinese exports.

At the same time, the search for markets to replace American demand is reshaping trade diplomacy. Mr Trump's tariffs have sent countries racing to lock in long-term access through free-trade agreements. The EU has been among the busiest. Soon after Mr Trump's election, it struck a deal with Mercosur—a South American bloc including Brazil and Argentina—after 25 years of delay (though it has yet to be ratified). The EU also sealed a deal with Indonesia, and hopes to do the same with India and the UAE by early 2026. For its part, Brazil revived talks with Canada, began dialogue with Japan and hopes for a deal with Mexico in 2026. Canada signed a deal with Indonesia and aims to wrap up negotiations with ASEAN in the coming year.

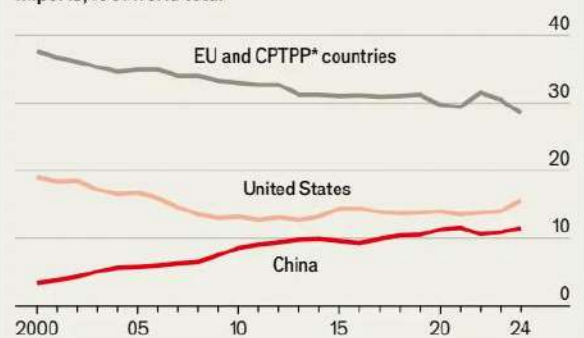
As well as bilateral deals, there are tentative efforts to shore up rules-based trade. The WTO is hobbled, but limps on. Even America is trying to preserve parts of it—lobbying to extend a moratorium on tariffs for digital exports and appointing an ambassador. Smaller economies continue to file cases and call for reform. China has pledged to forgo its developing-country status. Countries from Brazil to Indonesia talk of the need to bolster the WTO. But reform will be slow.

The rules-based trading order needs a champion. Will the EU step up? Some have floated the idea of linking the bloc with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a group of 12 countries including Australia, Canada, Chile, Japan and Mexico that accounts for 14% of global GDP. The EU already has trade deals with many of them. But such a merger remains far-fetched. The CPTPP was built to American specifications, with looser regulatory standards. Do not expect a grand alliance in 2026. Fragmentation will prevail—but so will efforts to keep the liberal order alive. ●

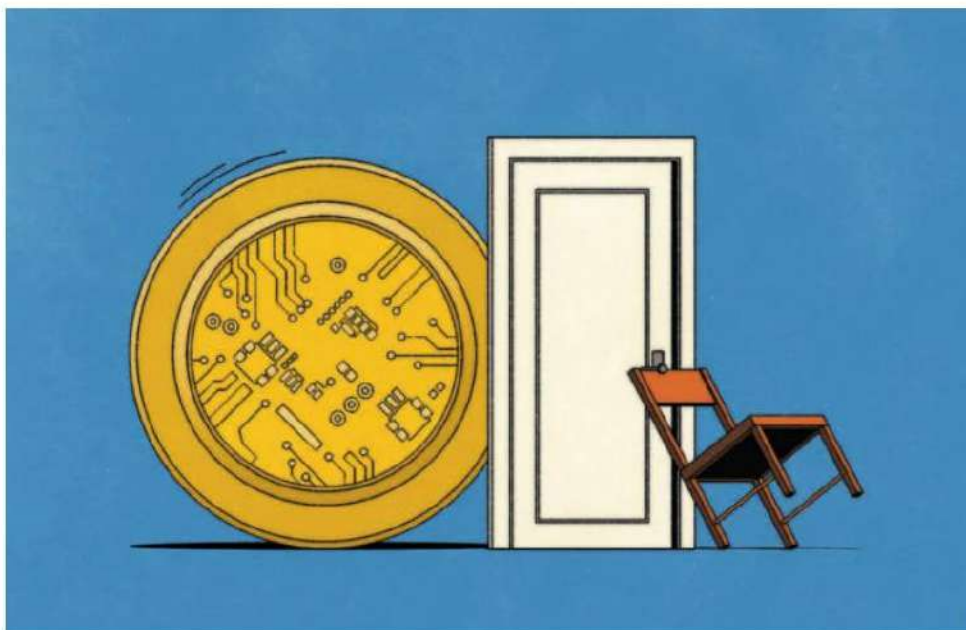
Donald Trump's tariffs have sent countries racing to strike new trade deals

→ Trade winds

Imports, % of world total



*Comprehensive and Progressive Agreement for Trans-Pacific Partnership
Source: UN Comtrade



Stablecoins: are they really?

The battle over the digital tokens will reach fever pitch

Mike Bird Wall Street editor, *The Economist*

FOR ISSUERS of stablecoins, the buzziest part of the crypto world, 2025 was a great year. The incoming American administration was markedly more pro-crypto than its predecessors. The market grew by more than 50%, rising to \$310bn in total. Standard Chartered, a bank, says it could reach \$2trn by 2028.

Stablecoins are meant to maintain a steady value against another asset, usually the American dollar. They can be traded more cheaply and easily than other assets, especially across national borders, with transactions recorded on digital ledgers. The industry won formal approval in July 2025 when the GENIUS Act was signed by Donald Trump. It confirmed the assets that stablecoin issuers could invest in (mostly very safe, short-term Treasury bonds) and that they would not be regulated by the Securities and Exchange Commission—the most interventionist of America’s financial regulators. It was everything the crypto industry wanted.

But in the coming year, sceptics and incumbents aim to push back on the crypto revolution, particularly in Europe, where policymakers have been far cooler towards the idea of privately issued

stablecoins. The European Central Bank, which frets about losing control of its monopoly on money to private issuers, will lay out plans for its own, public, euro-denominated alternative. It hopes to have a political deal in place in early 2026 for a digital euro, setting the stage for the currency to be launched by around 2029.

Even for the banks that embraced crypto in 2025, stablecoins present a threat. Traditional lenders fear the coins will pose a challenge to their bread-and-butter form of financing—retail deposits. Banks lobbied to stop the “payment stablecoins” regulated under the GENIUS Act from offering a yield to their owners, a battle which they won. But they fear the struggle is not completely over. The Bank Policy Institute, an industry group, thinks loopholes will let stablecoin issuers pay their holders a yield indirectly, which might prompt an exodus from traditional bank accounts into stablecoins.

Regulatory clarity from America has, though, calmed some of the worries about the industry. Previously, stablecoins were issued outside America, and invested in a variety of assets. In 2022 a stablecoin called Terra suddenly collapsed, losing almost all its value. Tether, the largest of the stablecoins, has never been fully audited. But now, as a result of the GENIUS Act, the limits on what issuers of stablecoins can own—at least, those that want to operate in America—are far clearer. That should make collapses much less likely.

Banks, sceptical policymakers and traditional payments firms alike are crossing their fingers that the stablecoin revolution fizzles rather than roars. Their efforts to push back will take a step up in 2026. But if the most bullish forecasts for the industry’s growth are anywhere near correct, those efforts may prove to be too little, too late. ●

Green with envy

The dollar’s dominance is being challenged, but only so far

Cerian Richmond Jones International economics correspondent, *The Economist*

FOR DEVELOPING countries, a weaker greenback is usually good news. Poor-country governments borrow more in dollars than rich ones, so their debt bills get slashed. In the first six months of 2025, the dollar’s value fell by about 10% against other rich-world currencies. But this time things were different. Most politicians in poor countries were aghast.

That is because the dollar fell as markets reacted to Donald Trump’s trade war. Since taking office, Mr Trump has ripped up the rulebook that governed global free trade. He threatened debilitating tariffs and trade restrictions on all of America’s trading partners. Amid such uncertainty, risk premiums—extra costs that poor countries pay lenders—increased. Despite a weaker greenback, the cost of borrowing in dollars rose after Mr Trump entered office.

The actual blow from tariffs, when it came, was lighter than many expected. Enough goods are exempt that the average country’s exports are now levied at just 18% of their value, short of the 30% Mr Trump promised across the board. But the dollar has yet to recover. And for poor countries the cost of borrowing in the currency is still elevated. Many are now looking for other options. The greenback’s security as the world’s reserve currency has been slipping for decades (see chart). Will the transition speed up in 2026? ▶▶

→ Greenback down

Dollars as % of total global foreign-exchange reserves



Sources: IMF; World Bank, UNCTAD; JPMorgan



Elephant in the room

MUMBAI

India will soon be the world's fourth-largest economy, but it is still poor

Leo Mirani Asia correspondent, *The Economist*

INDIA WILL accomplish a remarkable feat in early 2026. By the close of the financial year in March it will overtake Japan to become the world's fourth-largest economy—and within striking distance of the third-largest, Germany.

The milestone is about more than bragging rights. It shows tremendous progress. At the dawn of this century Japan was the world's biggest economic power after America, and India was not even in the top ten. Since then India has zoomed past Brazil, Mexico and Canada, several European countries, and its own former coloniser, Britain. The IMF reckons that by 2030 it will trail only America and China.

The fruits of this prosperity are visible across the country. India's cities have sprouted skyscrapers and luxurious homes; its highways are thronged with vehicles; its equity markets are huge and thriving. Most important, hundreds of millions of people have lifted themselves out of extreme poverty. A middle class has emerged, 400m-strong and growing. Indians, and their government, would be justified in celebrating their successes.

But they should not break out the

champagne just yet. For all its growth, India remains a poor country. A more revealing measure of India's development than the size of the economy is its GDP per person. Though it will soon edge past Japan in overall GDP, the fruits are shared among more than 11 times as many people. Adjusted for the cost of living, India ranks 126th on this measure. That is an improvement from 25 years ago, when it ranked 152nd. But at just over \$12,000 per head, around the same level as Jordan or Uzbekistan, it is only about two-thirds of the average for emerging economies.

Another way to think about India's economic rise is to consider whether life has improved for its people. The rate of extreme poverty plummeted from 27% to just 5% in the decade to 2022, according to the World Bank. But the absolute numbers are still staggering. In 2022, 75m—more than the population of Britain—survived on less than \$3 a day. Another 267m, about twice the population of Mexico, scrape by on less than \$4.20 a day, the World Bank's poverty line for lower-middle income countries like India. The country ranks 102nd out of 123 on a ranking compiled by the Global Hunger Index.

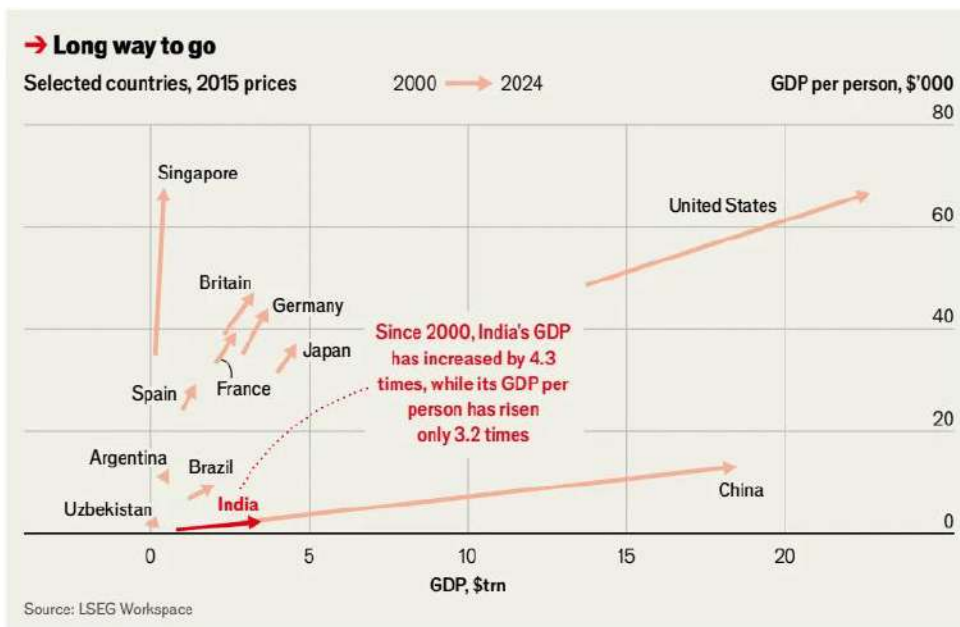
And India fares poorly on many other rankings and indices, too. It is 176th out of 180 countries on an index measuring environmental performance compiled by Yale University; 151st out of 180 on a press-freedom index published by Reporters Without Borders, an advocacy group; and 41st on a democracy index put together by the Economist Intelligence Unit, our sister company.

Shepherding an economy from relatively puny to among the biggest in the world represents a huge achievement by India's leaders. But size is not everything. As hundreds of millions of Indians would attest, quality of life matters, too. ●

Developing countries find it simpler and cheaper to transact in dollars, rather than other currencies, because they already borrow and trade using the greenback. Mr Trump has made both activities less attractive. But trade excluding America is booming. In the first six months of 2025, exports from China rose by a quarter to Africa, and by a fifth to South-East Asia. Many poor countries hold different currencies and foreign reserves roughly in the same shares that they trade. Should such patterns continue into 2026, central bankers may end up furiously trading dollars away.

Other governments are willing to offer inducements to speed up the process. The issuing country of a reserve currency enjoys an exorbitant privilege: a discount on its debt. China offers swap lines to its biggest trade partners. More than 40 countries have taken up the offer for emergency reserves of yuan. Together with Russia, India and other members of the BRICS group of countries, China's central bank is building a digital payment system that circumvents the need for dollars. The goal is to recruit enough countries to chip away at the dollar's dominance. Officials promise progress in 2026.

China has made some inroads into America's grip on central-bank reserves. Just 60% of foreign reserves globally are now held in dollars, the lowest level in more than 20 years. But going further is tricky. Policymakers simply do not have instruments to get at some uses of the dollar. Dollarised foreign-exchange transactions still make up 90% of the total. And, though America is responsible for less than a tenth of global trade, half is still settled in greenbacks. For the dollar to be dislodged, Mr Trump would have to wreak much more damage to the world economy than he did in 2025. ●



By Invitation

Navigating in the fog

THE WORLD economy has proven more resilient than many feared. The nightmare of an all-out trade war has so far been averted, as has a global recession. Businesses are adapting to trade disruption. Past reforms, especially in emerging markets, have helped countries manage in a fast-changing landscape.

But the outlook remains tepid and is shrouded in uncertainty. And the fog is unlikely to clear. This is the new economic reality confronting policymakers, businesses and consumers: profoundly uncertain times.

A gauge of uncertainty co-developed by IMF staff illustrates this. While market measures of volatility and business surveys suggest investors and firms are relatively sanguine about economic prospects, overall policy uncertainty is at a record high.

What's behind the lack of clarity? To begin with, the new global trade regime is far from settled. Negotiations between America and its trading partners continue, and other countries are forging new alliances. Meanwhile, the domestic imbalances that ultimately drive trade balances remain stubbornly persistent.

Yet the causes of uncertainty run much deeper. Geopolitical alliances are fragmenting and military conflicts are dragging on. Social unrest has flared in many places around the world as people demand better opportunities and more accountability. The combination of low growth and high public debt is raising questions about fiscal sustainability—and limiting governments' ability to respond to those growing social concerns amid rising spending pressures related to everything from demographic trends to defence needs.

Global uncertainty is here to stay, says Kristalina Georgieva, managing director of the International Monetary Fund



The global financial system is seeing major shifts beneath a seemingly calm surface, including through the emergence of new forms of finance such as stablecoins and growing players such as non-bank financial institutions. All this is taking place against a backdrop of ageing populations in many countries, mounting environmental harm and rapid technological advancement.

This is a daunting landscape—but one whose future contours are at least apparent. In advanced economies

The combination of low growth and high public debt is raising questions about fiscal sustainability

especially, growth will be increasingly constrained by a combination of demography and tighter immigration policies, putting government finances under even more pressure. Artificial intelligence will be deeply embedded in the economy, causing workforce disruption but potentially boosting productivity. With share prices of large tech firms reflecting that promise, whether and how fast AI delivers anticipated productivity gains could have implications for financial stability.

Given less common ground for global agreements, more energy will be directed towards bilateral and regional trade deals. If the recent social unrest around the world is any indication, trust in institutions and their leaders has eroded

and rebuilding it requires determined efforts.

How these forces will interact is hard to predict. But it is already clear that the policy choices countries make today will define the ultimate shape of the emerging landscape.

First, countries need to get the fundamentals right. That means bringing down debt and rebuilding fiscal space, so they can respond to the next shock. In most cases, budget consolidation should be gradual, with a focus on supporting growth and protecting priority spending. Central banks must carefully calibrate monetary policy to balance price-stability and growth risks. Safeguarding institutions is key to reinforcing macroeconomic and financial stability—and maintaining public support.

Second, countries must reduce excessive external imbalances, starting at home, with domestic macroeconomic adjustments. Countries where saving is overabundant should take steps to stimulate domestic demand; in other places, rebalancing may call for fiscal consolidation.

Third, countries need to durably lift growth. Reforms that encourage entrepreneurship and innovation are essential to raising productivity and unlocking the potential of new technologies such as AI. Countries should work to maintain trade as an engine of growth.

Though the path ahead is murky, we can see a scenario where the global economy accelerates. Driven by AI, productivity lifts off; conflicts end; a new trade equilibrium emerges; and financial stability holds. With smart policies that stabilise the global economy and create opportunities for people around the world, we can find a way forward despite the fog of uncertainty. ●

Science & technology



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Second helpings

New versions of weight-loss drugs are easier to take, work better and last longer

Natasha Loder Health editor, *The Economist*

THE APPETITE for weight-loss drugs, known as GLP-1 agonists, has been insatiable since they hit the market a decade ago. In 2024 global spending on them reached \$54bn, a figure that is sure to rise in the coming years. These drugs, better known under their brand names of Wegovy, Ozempic, Mounjaro and Zepbound, do not merely promise trimmer waistlines but also seem to reduce the risks of a variety of maladies of the heart, liver and kidneys. As pharmaceutical firms elbow each other for a slice of the pie, the buffet of options will grow in 2026.

One big change to watch for will be the arrival of

the first GLP-1 drugs that can be taken orally. Novo Nordisk, the Danish company behind Wegovy and Ozempic, is preparing to launch a pill version of semaglutide, those drugs' active ingredient, with an average weight loss, after a year, of 16.6%. A rival pill, orforglipron, from Eli Lilly, the American maker of Mounjaro and Zepbound, delivered a 12.4% reduction. Though pills are less effective than jabs, which can reduce weight by 16-23% after one year, they are far more convenient. But Ahmed Ahmed of Imperial College London notes that the pills may fall short of these results outside controlled clinical settings. With a daily pill rather than a weekly jab, patients may be more likely to forget doses, or choose to skip an occasional pill to avoid unwelcome side-effects.

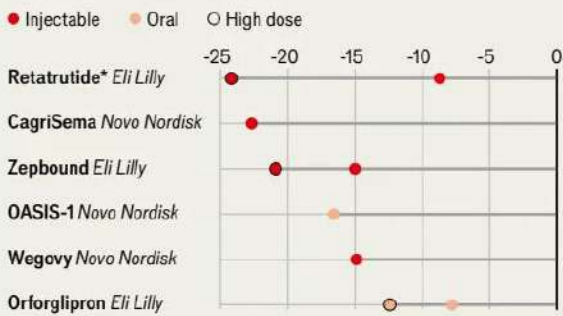
Meanwhile, improved versions of injectable drugs are also on the way. In 2026, attention will turn to Lilly's new candidate, retatrutide, a "triple agonist" injectable which activates three receptors involved in weight control and has been dubbed the "Godzilla" of weight-loss medicines. In phase-two trials, participants lost 24% of their body weight over 48 weeks; these results will need to be replicated in the larger phase-three trials, which are due to report at the end of 2025. Nipping at its heels is CagriSema from Novo Nordisk. This drug, a combination of Wegovy and an analogue of a molecule called amylin, which has a satiating effect, demonstrated a 23% loss in phase-three trials.

In the meantime, others are working on longer-acting GLP-1 jabs that can be administered



→ **Phat**

Selected weight-loss drugs, % of body weight lost
Phase-three clinical trials, 2021-25



Sources: *The New England Journal of Medicine*; company reports *Phase-two trial

One change to watch is the arrival of weight-loss drugs in the form of pills

combined with semaglutide, it can deliver a 22% reduction in weight after 72 weeks, 93% of which comes from fat (versus 72% with semaglutide alone). Trials of this drug will continue in 2026.

The surge in new products will enrich pharmaceutical firms. But competition could also drive down the costs of treatment, as first-generation drugs, or those that offer slightly poorer top-line results, command lower prices. Some government-funded health systems are likely to make population-scale deals in the coming years, which could broaden access. And as the patent for semaglutide expires in many markets (but not America and Europe) in 2026, generic manufacturers will be able to make cheap copies and expand availability in countries such as Brazil, China and India (see box).

If generic semaglutide were made available to everyone with obesity and diabetes globally, it could save 2.1m-3.1m lives a year, according to one model. Moreover, GLP-1 medications are known to reduce cardiovascular events, improve sleep apnoea, protect the kidneys and liver, and even show promise for reducing addictive behaviours. Early data have even hinted at reduced risks of cancer and Alzheimer's. More results on these unexpected side-benefits of GLP-1 use will be published in the coming months. However you slice it, 2026 is shaping up to be a pivotal year for these remarkable drugs. ●

monthly, rather than weekly. Amgen, another American firm, has developed a monthly injectable called MariTide that seems to offer a 20% weight loss after a year, though this will need to be confirmed in phase-three trials. And efforts are under way to make new treatments that temper the loss of muscle associated with using GLP-1 drugs. Eli Lilly is working on an antibody drug known as bimagrumab, which binds to receptors in the body that increase skeletal muscle mass. Tests so far indicate that, when it is

Slimming all over the world

With patents expiring, weight-loss drugs go global

Shailesh Chitnis Global business writer, *The Economist*

DRUGS THAT treat diabetes and weight loss have become a commercial and cultural phenomenon. But supply shortages and eye-watering prices have kept slimming jabs largely confined to the rich world, with more than two-thirds of sales in America alone. That is about to change. In early 2026 the patents on semaglutide (the active ingredient in Wegovy and Ozempic) will expire in several large emerging markets including Brazil, China, India and Turkey, together home to a quarter of the world's obese adults (see chart). Cheap generic versions, with new treatments in pill form, will make 2026

the year that weight-loss drugs go truly global.

India will be central to that shift, both as a consumer and a manufacturer. The country has around 84m obese adults, making it a huge potential market. Jabs from Novo Nordisk and Eli Lilly, the main producers, cost about \$200 a month in India—less than half the American price, but still out of reach for most. But at least ten generic versions of semaglutide are in late-stage trials and could be launched in 2026. Local copycats could slash prices by up to 80%, vastly widening access. Indian production promises to transform its domestic market and to flood the world with cheap slimming jabs.

China will be just as important. As well as copying existing drugs, its firms are designing new ones. LEK, a consultancy, reckons around 30 new obesity treatments are in late-stage trials, including some with improved efficacy or reduced side-effects. In May 2025 Chinese regulators approved mazdutide, developed by Eli Lilly and Innovent, a Chinese biotech firm. In trials

it matched Zepbound, Lilly's leading obesity jab, for weight loss. Western firms are lining up to license the most promising Chinese drug candidates.

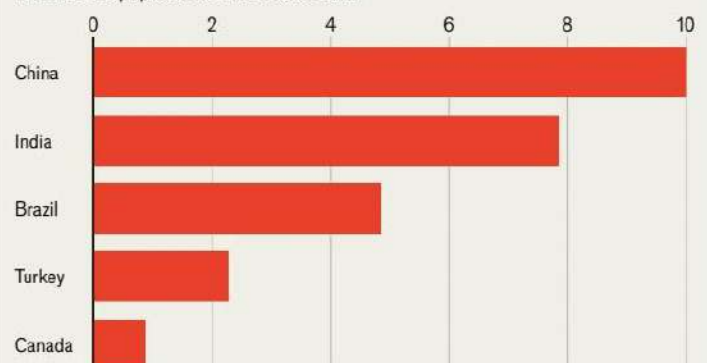
The arrival of weight-loss drugs in pill form will also widen access (see previous story). Lilly is stockpiling millions of units of its pill, orforglipron, ahead of expected approval in 2026. Pills will be especially valuable in poorer countries where a lack of refrigeration hampers the distribution and storage of delicate jabs. David Risinger of Leerink Partners, an investment bank,

predicts Lilly will "blanket the world" with its pill.

The stakes are immense. The World Obesity Federation, an NGO, reckons two-fifths of the world's adults were overweight or obese in 2025. By 2030 nearly half of all adults, about 3bn people, could be. Broadening access could bring huge benefits and, beyond weight loss, the new drugs seem to help many other conditions. As costs fall and access widens, 2026 could mark not just a commercial milestone but a medical revolution.

→ **Thinning out**

Selected countries where semaglutide patent loses protection in 2026
Obese adult population as % of world total



Sources: World Obesity Federation; UN; *The Economist*

Injecting some controversy

The Enhanced Games will let athletes use performance-enhancing drugs

Natasha Loder Health editor, *The Economist*

HOW ABOUT this for a bold and controversial idea: a sporting event where the use of performance-enhancing drugs (PEDs) is not just permitted, but actively encouraged? That is exactly what Aron D'Souza, an Australian lawyer and entrepreneur, has been working to organise for the past few years. Mr D'Souza says his sports tournament, the Enhanced Games, is taking a stand for freedom and choice. Not everyone is convinced. Derided as the "doping Olympics", the idea has drawn intense criticism from sporting bodies. Nonetheless, after years of speculation, the inaugural event will take place from May 21st to 24th in Las Vegas.

The programme will feature swimming, track events and weightlifting, with prize money of \$500,000 per event (the aim is to add further categories in future years). And there is a \$1m bonus on offer for any competitor who breaks a world record. The organisers promise global live-streaming and broadcast coverage, though details of these partnerships have yet to be announced.

Athletes do not have to use PEDs to compete, and may compete as "natural" athletes. But those who do enhance will have to do so under close medical supervision, and may use only products that have been approved by America's drug-regulation agency. The organisers say that, to ensure a level playing field, every athlete will begin their drug protocols at the same time. This will happen in two rounds, with the second round taking place in the run-up to the event.

In 2025 the United States Anti-Doping Agency, the World Anti-Doping Agency and the International Olympic Committee issued blunt warnings that allowing PEDs in any form was dangerous. Traditional sporting bodies have also expressed concern that the Enhanced Games might normalise and glamorise drug use for young athletes.

Yet as Luke Turnock, a lecturer in criminology at the University of Lincoln, points out, the normalisation of PEDs is already well under way, driven by social-media influencers, gym culture and the broader pharmaceuticalisation of daily life. The pharmaceutically enhanced horse has already bolted from the stable.

Because the use of drugs will be declared and closely monitored, the organisers of the Enhanced Games insist it will be the "safest" sporting event in history. That claim deserves scrutiny. But the organisers' commercial ambitions will be met only if

athletes are seen to benefit from their interventions, because the games will double as marketing for a planned direct-to-consumer telehealth platform, also due to launch in 2026, which will offer supplements and "medically supervised interventions". So far few details are available, but this will almost certainly include testosterone therapy, a treatment that is rapidly growing in popularity in America and elsewhere.

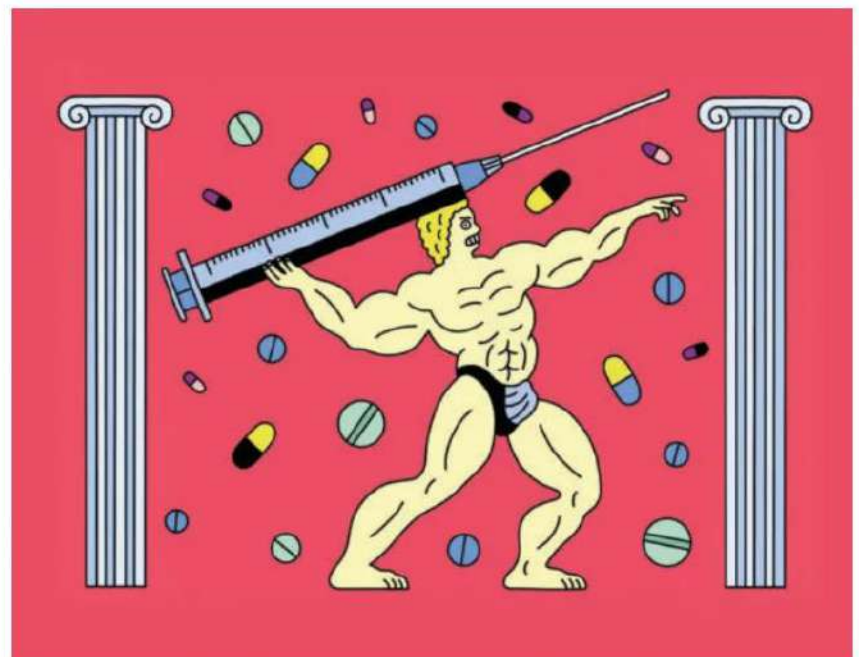
The signs are that the drugs do work, however. Kristian Gkolomeev, a Greek swimmer who worked with the organisers to test the concept, broke the 50-metre-freestyle record in 2025 while using PEDs. He will participate again in 2026, along with Ben Proud, James Magnussen and Andrii Govorov, three British swimmers.

Mr Proud explained his decision by saying that it would take "13 years of winning a World Championship title" for athletes to earn the amount on offer for a single race at the Enhanced Games. He noted that even Olympic champions seldom secure enough money for retirement. Britain's national governing body for swimming condemned his decision to participate.

The Enhanced Games are being contested not just in the stadium, but also in the courts. After Mr Gkolomeev broke his record, World Aquatics, swimming's global governing body, introduced a new bylaw banning athletes and any other staff (including coaches and doctors) if they participate in any events that permit banned drugs. The Enhanced Games' organisers responded by filing an \$800m antitrust lawsuit that alleges a predatory campaign to crush them by forcing a boycott.

There may be much more at stake than just sporting achievement. Mr D'Souza and his backers, who include Peter Thiel, a tech billionaire, and Christian Angermayer, who specifically invests in life sciences and human enhancement, imagine a future where taking drugs to boost performance in all kinds of ways becomes commonplace, redefining what it means to be human. Whether superhumanity is attainable is uncertain. But sports fans will be divided on whether they want to watch the games. ●

The inaugural programme will feature swimming, track events and weightlifting





Back to the Moon?

A possible fly-by is just one of many space missions to look out for

Alok Jha Science editor, *The Economist*

WILL THEY or won't they? Since 2023 America's space agency, NASA, has been promising that its Artemis II mission would send astronauts around the Moon. Many delays later, the intended date of launch is now February 2026.

It would be the second flight of the American space agency's Space Launch System (SLS), an expensive heavy-lift rocket, and the first with crew aboard the Orion spacecraft. In a ten-day mission, the astronauts—Reid Wiseman, Victor Glover, Christina Koch and Jeremy Hansen—are expected to fly around the Moon to test spacecraft and life-support systems. That would pave the way for Artemis III, the first crewed lunar landing since the end of the Apollo programme in 1972.

Private firms also have ambitious plans. Vast, a startup based in Long Beach, California, wants to launch the world's first commercial space station in May 2026. *Haven 1* will have a habitable volume of 45 cubic metres, and will be available for government missions or private-sector use. A few months after the station is put into orbit, the company's first crew will launch and spend two weeks there. The station will host four missions in total and is

intended to be in orbit for three years. Vast is positioning itself for the end of the International Space Station's operations in 2030, and aims to provide a replacement location for microgravity experiments.

SpaceX, meanwhile, will continue to test its giant Starship rocket. And in 2026 the world's leading rocket firm hopes to make its most ambitious move to date—a Mars mission. In 2026 Earth and Mars will be lined up in just the right way for a launch, and Elon Musk has long said that he wants to use this window to send an uncrewed Starship to the red planet. If he misses it this time round (and there is a good chance he will), the next opportunity will come in 2028.

For its part, China will continue its march into space (and to the Moon) with the Chang'e 7 mission in late 2026. This will consist of an orbiter, a lander, a rover and a smaller spacecraft that will act as a scout. The lander will touch down on the illuminated rim of Shackleton crater, near the Moon's south pole, and its two exploratory craft will investigate the permanent shadows nearby. Like previous Chinese missions, Chang'e 7 will gather data on potential sites for a future lunar base—the south pole is noteworthy because of the potential existence of water (useful for drinking and making rocket fuel). NASA is also interested in the region as a landing site for Artemis III.

Other possible launches include the European Space Agency's planet-hunting PLATO probe, and China's Xuntian space telescope. Russia will test its Soyuz 5 rocket for the first time. And JAXA, Japan's space agency, will launch its Martian Moons eXploration (MMX) mission, delayed from 2024. The probe, a collaboration with NASA and the ESA, will visit Mars's moons, Phobos and Deimos, and bring samples back to Earth in 2031. ●

The shape of you

MOSS, NORWAY

Rival firms' race to build humanoid robots will intensify

Alex Hern AI writer, *The Economist*

DRESSED IN SENSIBLE Nordic knitwear, Bernt Bornich's robotic manservant is more stylish than practical. Ask it to fetch a can of Coca-Cola from another room, and more often than not, something will waylay it in the process. Getting the humanoid robot, called Neo, to work as a useful domestic assistant requires help from a remote human overseer and, ideally, an empty house. Yet by the end of 2026, Mr Bornich's firm, ix, hopes to have 10,000 of its robots in homes around the world.

That makes ix one of the more ambitious companies among the many now vying to build humanoid robots. Tesla aims to sell a million of its Optimus robots a year by 2030, but so far the carmaker has only a few of them in operation. Figure, a Silicon Valley darling, has tested just a handful of robots in a BMW car factory, though it recently announced an impressive-looking new model. Boston Dynamics has shown off the remarkable parkour abilities of its Atlas robot, but under its latest owner, Hyundai, the firm shows little interest in expanding its operations beyond research.

The market leader is China's Unitree, ►►



↑ *Blind gymnast*

which delivered around 1,500 humanoid robots during 2024. But its most advanced model, the H1, which costs \$90,000, is still described as a research platform. By contrast, 1x, based in Norway, is targeting the consumer market with Neo. A sporadically successful robot might sound like a hard sell, given its price tag of \$20,000. Yet despite its limitations, Mr Bornich's robot can still be useful. "When you have something that does all your chores, you will never give it back," he says.

The ultimate goal of those building humanoid robots is not to sell a house-keeper. It is to automate all physical labour. Elon Musk, Tesla's boss, reckons such robots will outnumber people by 2040. In theory humanoids should fit smoothly into a world built for humans. But just how soon they will be ready for prime time is unclear.

Interact Analysis, an industry analyst,

\$90,000

The current cost of a humanoid robot, made by Unitree of China

reckons the market for humanoids could eventually be worth \$2trn, but says safety concerns and regulation will hamper adoption in the short term. A robot that makes a mistake can cause physical harm. Lighter, less powerful robots are safer but much less capable. "The technology isn't there yet," says Rueben Scriven of Interact. He foresees a "humanoid winter" as funding dries up and ambitions plummet.

Videos of humanoid robots show them performing all kinds of acrobatic feats, but

none of them can enter a stranger's kitchen and make a cup of coffee. The reason is what Nvidia's director of robotics, Jim Fan, calls the "blind gymnast" problem. Training robots for thousands of simulated hours in virtual reality can give them incredible athleticism but grants them no understanding of how the world works.

Humans learn with their whole bodies, not just their brains. Developing "embodied intelligence" will require training a robot brain with a body around it, says Jim Torresen, a roboticist at the University of Oslo, who once taught Mr Bornich. And that is why 1x is so eager to get its Neo robots into people's homes in the coming year—to gather training data about the real world. It hopes this will enable its robots to improve rapidly. Humanoids are on the march. But don't expect C-3PO in 2026. ●

How to avoid a hangover

Do supplements that claim to help actually work?

Alex Hern AI writer,
The Economist

FORECASTING MANY aspects of 2026 is tricky, but one thing is certain: in the first hours of the new year, many people will be drunk. And soon afterwards, many of them will regret it. Surely the answer is simple: to avoid a hangover, just drink less? Alas, that is easier said than done. Alcohol's inhibition-reducing effects can undermine the steeliest resolve.

Hence the bustling trade in supplements, nootropics and probiotics which purport to head off the ill-effects of drinking before a hangover kicks in. From plant extracts that claim to slightly boost the body's ability to metabolise alcohol, to genetically engineered bacteria that secrete an enzyme to break down the nasty byproducts of that process, there is no shortage of options.

Evidence that such supplements work is sketchy,

however. An analysis of 21 studies of hangover remedies found slim statistical evidence that seven of them worked a bit, but warned that "only very low-quality evidence of efficacy is available". That said, "all had favourable tolerability profiles", so at least they don't make things worse. Pills containing clove extract, tolfenamic acid and pyritinol warranted further study.

Such studies may not be forthcoming, warns David Nutt, a neuropsychopharmacologist at Imperial College London. Being hungover is an unusual ailment: although self-inflicted, it is still a very real medical condition. That means interventions that purport to treat or cure it must meet clinical standards.

"Medical-quality studies cost hundreds of millions of dollars," Dr Nutt notes. Even if a supplement-maker were willing to pay for such a study, and found that a particular product worked, new medicines are generally made available by prescription at first, rather than over the counter. That does not work for a remedy needed in a hurry.

Other mooted methods of hangover prevention are simpler than supplements. Dr Nutt suggests sticking to clearer drinks, since the "congeners" that accompany ethanol in darker spirits can

often be bigger contributors to a hangover. Some folk remedies seem to focus on those congeners: for instance, taking activated charcoal (used to treat poisonings) before going to bed. In fact, charcoal has almost no effect on ethanol, though it does bind to the toxic byproducts of methanol, which is present in small quantities in most alcoholic drinks. But use it with care, because it can interact with other medications and limit their efficacy.

None of this is any help if you've woken up with nausea and a headache. While there are some promising avenues of research for hangover

prevention, "You can't 'cure' a hangover," says Dr Nutt. But you can treat the symptoms. Food, caffeine, water or a painkiller are as good as anything else. But, contrary to popular belief, eating fatty foods in the hope that they will soak up the alcohol does not work because the alcohol is already in the bloodstream.

If all else fails, you can comfort yourself with the knowledge that at least you do not have the problem faced by the small minority of people who do not suffer from hangovers. Their rates of problem drinking seem to be much higher.



By Invitation

The outlook for vaccination is stormy

HERE IS THE vaccine forecast for 2026. There is stormy weather ahead, with periods of calm, but a risk of extreme turbulence, potentially coupled with serious disease outbreaks. These outbreaks could be controlled by vaccines if the research behind them is allowed and funded, if there are enough vaccines available—and if the public and national leaders accept them. Some parts of the world will fare better than others, confident in their leadership, in science and in the power of vaccines to save lives. Overall, our research at the Vaccine Confidence Project, which monitors attitudes to vaccines around the world (what I like to call the vaccine “weather”) shows that most of the world’s population still believes in the importance of childhood vaccines.

The science behind vaccine development is stronger than ever, thanks to advances in computational biology and artificial intelligence, and in the understanding of the immune system, which allows for better assessment of the safety and effectiveness of vaccines. But 2026 will be a crucial year that will test our ability to apply and benefit from these new technologies.

An extraordinary effort will be needed to sustain confidence in vaccines, given the unprecedented level of misinformation being propagated about them, even from official sources. There have also been significant disruptions to vaccine-research funding, including the explicit undermining and defunding in America of research into mRNA vaccines, dramatic cuts to global-health programmes that supported vaccination, and the dismantling of trusted institutions that guided regulatory and policy decisions based on scientific evidence.

Efforts to rebuild trust are needed in the coming year; argues Heidi Larson, director of the Vaccine Confidence Project



What went wrong? Trends in vaccine confidence have been volatile over the past decade and vaccine uptake has plateaued, with a precipitous decline during the covid-19 pandemic. The pandemic led to major investments and rapid progress in diagnostics and vaccines. Billions of doses of covid-19 vaccines were administered around the world in record time, albeit unevenly. But there was also a tsunami of misinformation and conspiracy theories, and a loss of trust in government, driven by often-confusing guidance around

Vaccine confidence has been volatile over the past decade and uptake has plateaued

measures such as mask-wearing and social distancing.

Such measures, while followed by many, stirred anger and resentment among others, undermining confidence not just in covid vaccines, but in vaccines more broadly. Vaccine sceptics found common cause with other protest groups, fuelling a wider surge of dissent. It was in this already emotive, resource-strained and polarised context that the new American administration cut funding and made changes to guidance and policy.

In response, 2026 needs to be a time of realignment and engagement in new ways to build and sustain confidence in vaccination around the world, and to collectively address the disruptions to vaccine research, policies and

programmes. One priority is to deal with the undermining of the institutions that set vaccine policy. In particular, the Advisory Committee on Vaccine Practices, a federal body, has been a trusted domestic reference and guide for vaccination practices in America, but has also served as a reference for many countries around the world. The dismissal and replacement of its members by Robert F. Kennedy junior, America’s health secretary, means that new sources of evidence-based vaccine guidance must be identified.

Another priority is to find new sources of funding for vaccine research and delivery, given cuts to government aid from America, Britain, France and others. The case must be made that funding for health projects and humanitarian aid is not merely about health, but human security.

Yet the success of vaccination campaigns also depends on the digital spaces where opinions are formed. As more online content is created and delivered by AI chatbots and opaque algorithms, shaping what people think about vaccines and other topics, the need to understand how they work is becoming critical to public health.

On the flipside, AI could act as a monitor and early-warning system, detecting rising waves of misinformation before they spread widely, to allow public-health teams to respond quickly. And in the future, vaccine roll-out strategies will be co-designed by AI systems. Vaccination campaigns will be guided by data rather than fixed schedules, responding to shifts in trust and behaviour as dynamically as they respond to shifts in infection rates. The future of vaccination may lie as much in predictive analytics as in public health. ●

Culture



Glass half-empty

The world has hit “peak wine”, as a result of demographic and cultural shifts

Alexandra Suich Bass Culture editor, *The Economist*

ERNEST HEMINGWAY, a famously heavy drinker, is supposed to have said his only regret in life was that he did not drink more wine. To the shock of the wine industry, it appears fewer and fewer people now feel the same way. Demand is slumping worldwide. “We face an existential threat” as to whether society will “continue drinking alcohol, including wine”, says one salesman for a large wine group.

In 2026 the world will wake up to the fact that humanity has hit peak wine consumption. The volume of wine sold in major markets in 2024 was around 9% lower than at its height in 2014, according to IWSR, an

alcohol-data firm. Both the global volume and value of wine sold will fall in 2026. Wine sales have always fallen in lean times, such as during the global financial crisis of 2007-09. But today, for the first time in modern history, wine is experiencing a secular decline that has nothing to do with broader financial conditions. People are just drinking less of it.

Why is the glass half-empty? Demand for alcohol of all kinds has slipped, but wine has been particularly hard hit—particularly the mass-market sort that accounts for the bulk of sales. It is what is known as a “high-frequency beverage”, but people are indulging less often, as they become more health-conscious and opt for lower-alcohol alternatives. Some 53% of Americans say drinking, even in moderation, is bad for their health, up from 22% two decades ago, according to a survey by Gallup. Wine is especially vulnerable to substitution by new entrants like “ready to drink” seltzers and cocktails in cans, which can have lower alcohol levels, says Richard Halstead of IWSR.

The trend is being driven by demography and culture. In big markets, including America and western Europe, population growth has slowed or gone into reverse, while fast-growing Muslim countries are not producing oenophiles. Baby boomers, who have long been enthusiastic wine-drinkers, are heading to what Rob McMillan, a wine analyst at Silicon Valley Bank, calls the “big tasting room in the sky”. Younger consumers, especially Gen Z, are not devoted wine-drinkers. In Australia, for example, monthly wine consumption among

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WHAT IF?

Rights-holders from Disney to Universal Music are suing over AI infringing their copyright. So far America's courts have said training AI models on copyrighted work is “fair use”. But **what if courts rule that AI infringes copyright?** Models might have to “unlearn” what they have gleaned, allowing countries with looser copyright enforcement (like China) to race ahead.



▶ 18-to-24-year-olds fell by half between 2010 and 2023.

Wine's place in culture has changed, too. People of all ages are forsaking drinking altogether, or micro-dosing magic mushrooms instead—call it “California sober”. When people dine out, they may choose cocktails over wine. (Twenty years ago wine was nearly twice as popular as spirits among American drinkers; now slightly more prefer spirits.) And wine veterans worry as more people take GLP-1 drugs to control their weight, because slimming jabs make people drink less as well as eat less.

Wine-drinking surged in the 1990s partly as a result of research suggesting it was good for your heart. But now public-health officials warn people off alcohol entirely. America's top doctor wants cancer warnings on bottles, and the World Health Organisation says “There is no safe level of alcohol consumption.”

Vintners worry that wine could soon be stigmatised like tobacco, and governments will treat it as such. “If they start taxing wine like tobacco...people will be able to afford it less and less,” says Stéphane Dalyac, the boss of Laurent-Perrier, a champagne firm.

There are a few things to look out for in the year ahead. One is what happens to demand (and pricing)

People of all ages are forsaking drinking altogether

for Bordeaux in particular. The region is the largest producer of fine wine in the world and a barometer for the industry. Another is the fate of vineyards, which are already being torn out to make room for other crops. Look for more consolidation in the wine sector, too, as some shrinking wine businesses trade hands.

It is not all sour grapes, however. Expect premium wines to fare better, as people drink fewer but higher-quality bottles. William Kelley, editor-in-chief of the *Wine Advocate*, a magazine, compares the wine sector to watches. Technology may have made ordinary wristwatches obsolete, but people still aspire to own and wear luxury timepieces. Jayson Woodridge, who runs Hundred Acre, a cult winery in Napa Valley, concedes that it is “peak wine for the mass-produced ones”. But as trillions of dollars of wealth are transferred from baby-boomers to Gen X and millennials, he predicts that the recipients will spend money on fine wines, alongside other luxuries.

Even those not expecting a windfall have something to celebrate. A slump in demand means prices have fallen. Mr McMillan calls it a “golden era for wine consumers in search of value”. Those still drinking wine will surely raise a glass to that. ●

Quite a collection

The new museums to watch out for in 2026

Rachel Lloyd Deputy culture editor, *The Economist*

IT IS FITTING, in a way, that a museum of narrative art should have a long story behind it. George Lucas, the film-maker behind the “Star Wars” franchise, declared his intention to open a museum back in 2013. But if Hollywood is really run by accountants, then the museum world is governed by city planners. Mr Lucas experienced what artistic folk call “creative differences” with officials in San Francisco, then Chicago, before the Lucas Museum (pictured) eventually found a home in Los Angeles. It seems there has been drama behind the scenes, too: it has already had several CEOs.

Yet few will remember those twists and turns when the museum opens at last in 2026. The building—which

spans 300,000 square feet and looks rather like a spaceship from a galaxy far, far away—will house the auteur's art collection and archive, which extends to some 40,000 objects (plenty of them unconnected to “Star Wars”).

On display will be paintings by Edgar Degas, Frida Kahlo and Norman Rockwell; early “Black Panther”, “Flash Gordon”, “Garfield” and “Peanuts” comic strips; and storyboards, models and costumes. Mr Lucas says the museum is “a temple” to stories told through illustration.

The Guggenheim is hoping

finally to open its outpost in Abu Dhabi, 20 years after it announced plans to do so. (Protests over construction workers' conditions contributed to the delays.) The museum on Saadiyat Island, a district that is already home to an offshoot of the Louvre and the Zayed National Museum, will consider modernism from a global perspective. Its collection includes works by Yayoi Kusama, a Japanese sculptor, and Monir Shahroudy Farmanfarmaian, an Iranian artist.

The Pompidou Centre will also open a huge satellite institution, in a former Citroën

garage in Brussels in November 2026. Like the Guggenheim Abu Dhabi, Kanal—so named because it overlooks, well, a canal—will focus on art from the 20th and 21st centuries and bring together different modes and mediums. The Pompidou's executives are presumably conscious that museum attendance has still not regained its pre-pandemic level, and they therefore plan to host spoken-word nights, film screenings and concerts at the venue in addition to the exhibitions.

Music will be the beating heart of the Hip-Hop Museum, which will open in the Bronx, the New York City borough where the cultural movement originated in the 1970s. (“Hip-hop” refers mainly to the music genre, but also encompasses everything from breakdancing and graffiti art to fashion.)

It will attempt to provide “an appreciation of hip-hop's past” in its diverse displays, and “contribute something to hip-hop's future” through its music and photography programmes. Unusually, the museum will also set up a radio station on site. Who says that museums have to be hushed places?



↑ *It's a long story*

Playing on hard mode

As spending stalls, the video-game industry finds itself struggling to keep up

Tom Wainwright Media editor, *The Economist*

WITH A SQUEAL of tyres and a rattle of gunfire, “Grand Theft Auto VI” will burst onto consoles in November. Fans have waited 13 years since the previous version, which became the second-highest-selling game ever. Its successor is expected to shatter that record: analysts predict sales of more than \$3bn in its first year, making “GTA VI” perhaps the single most valuable launch in entertainment history.

The mega-hit will arrive during what is otherwise a bleak period for the industry. Gaming had a barnstorming decade up to 2021, as smartphones put a computer in everyone’s pocket and covid lockdowns prompted even non-gamers to play. Consumer spending on games grew by an average of nearly 10% a year for a decade. But since then things have stalled. Mobile penetration has plateaued. Covid-era gamers have lost the habit. Investors have taken their money elsewhere. Spending in 2025 has grown by less than 1%, estimates Ampere Analysis, a research firm.

The anticipated success of “GTA VI” will help the industry level up. As well as selling tens of millions of copies, it will boost console sales, as consumers buy the hardware needed to play the game. It may also prompt an overdue price increase in software. Console games typically cost \$70, making them a third cheaper in inflation-adjusted terms than 20 years ago. If “GTA VI” goes higher, it may give cover for other games to do the same, improving developers’ margins.

New hardware will also drive growth. Nintendo’s Switch 2 console launched in June and will drive \$7bn-8bn of software consumption in its first two years, says Ampere. Microsoft launched a handheld Xbox in October. Sony and Valve are said to be working on their own portable devices.

As growth in America and Europe stalls, Western firms will focus on emerging markets. Most growth in the next few years will be in Asia, the Middle East and Africa. Developers are creating games with these audiences in mind. Ubisoft, a French games publisher, has set the latest episode of its “Assassin’s Creed” series in Saudi Arabia. “Roblox”, a child-centric games platform based in America, is pushing into Asia.

Other untapped markets can be found closer to home. Young American women are now nearly as likely as men to play games (though they spend less time and only half as much money on it, Ampere finds). Older people are a growing market. The retired spend more time on screens than any other age group, and a rising share of it is spent on digital devices, not television.



↑ *It’s a steal*



Pensioners may be more likely to play “Wordle” on their iPhones than “GTA VI” on a PlayStation. But serious gaming is now big among the middle-aged: a third of those aged 45-54 own a games console, says a seven-country survey by GWI, a research firm.

Artificial intelligence will provide developers with a useful power-up. Game-development costs have been soaring, as titles get more complex (“GTA VI” is said to have cost over \$1bn to make). AI will push these costs down, as tasks in coding and animation become simpler. The same tools may also make it easier for amateurs to create their own experiences. AI comes with risks, however. In May “Fortnite” introduced an AI-powered Darth Vader character to chat with players—who soon tricked the Sith Lord into making rude remarks, prompting a rapid reprogramming.

These tactics will not turn the industry around overnight. Growth will pick up in 2026, but probably not by much: Ampere predicts that consumer spending will edge up by just over 2%. So gaming firms are also seeking to make money through other formats. The biggest game franchises have lately become Hollywood’s favourite source of ideas. A film based on “Minecraft” was among the highest-grossing of 2025 (and the game got a 30% boost in player numbers after the film came out). In 2026 moviegoers can look forward to a “Street Fighter” film and a sequel to the “Super Mario Bros” blockbuster. Adaptations of “The Legend of Zelda” and “Call of Duty” are in the works.

Meanwhile, Nintendo has opened three theme parks in Japan and America, and will soon open a fourth in Singapore. Merlin Entertainments, which operates Legoland, plans to open Minecraft-themed attractions in America and Britain in 2026 or 2027. And in November 2026 the inaugural “Esports Nations Cup” will take place in Riyadh. Gamers wanting a break from screen time will have plenty of ways to pursue their hobby in real life. ●

GTA VI could be the most valuable launch in entertainment history



A new episode for podcasting

Recognition at the Golden Globes reflects the format's increased cultural significance

Caitlin Talbot Culture researcher and correspondent, *The Economist*

IN AMERICA MORE youngsters tune in to podcasts than watch broadcast television. More millennials say they would prefer to meet their favourite podcast host than a beloved film or TV star. Overall, about 40% of Americans listen to podcasts, and half of them consider podcasts to be more truthful than traditional news media.

Hollywood is listening. "Podcasting has emerged as one of the most dynamic and influential mediums of our time," says Helen Hoehne, president of the Golden Globes. In 2026 the Globes will become the first major film and television award ceremony to honour podcasting. A new category—which debuts in the 83rd edition of the awards on January 11th—will recognise the best podcast of the year.

There are more than 4.5m podcasts in the world, so choosing a winner will not be easy. The Globes have drafted in Luminate, an analytics firm, to narrow down the top 25 podcasts based on measures such as audience size and market presence. The list includes news and true-crime podcasts, as well as shows hosted by Tucker Carlson, Ben Shapiro and Amy Poehler. Bookies' favourites include "The

Joe Rogan Experience", America's most popular, and "Call Her Daddy", a show about sex and relationships.

Regardless of who prevails, the award reflects the rapid rise of the medium. The word podcast, to describe downloadable audio shows, was coined in 2004. Since then the format has gone from "a niche format to a cultural force", says Roman Wasenmüller, head of Spotify's podcasting business. In 2026 some 600m people will listen to a podcast, Luminate reckons.

The new category also reflects the link between podcasts and the screen. Hit TV shows such as "Severance" now offer companion podcasts featuring interviews with the cast and crew. Podcasts have become "a creative incubator" for new stories, says Ms Hoehne. Popular podcasts have been adapted for television. "The Dropout", about the rise and fall of Theranos, a blood-testing startup, became an award-winning drama. "Homecoming" became a thriller starring Julia Roberts.

Meanwhile, podcasts themselves are starting to look more like television. Hosts post videos of their shows to reach a wider audience. The time spent watching video content on Spotify increased by 44% in 2024. Some podcast fans fear that the form will "turn into yet another set of people making cheap TV", notes James Cridland of *Podnews*, an industry newsletter.

Yet the shift towards video is part of a wider change in the media business. Just as online film-makers are shaking up the television industry by building fan bases to rival streaming platforms such as Netflix, YouTube has emerged as the most popular site for podcasts. A billion people a month watch them there, by one count. In 2026 the line between video and audio formats will blur yet more. In this context, the Golden Globes' decision to pay heed speaks volumes. ●

Seen it all before?

More cinematic remakes and reboots are coming in 2026

Rachel Lloyd Deputy culture editor, *The Economist*

FOR AS LONG as people have been producing films, they have been producing remakes. Georges Méliès, a French director, released "Une Partie de Cartes"—a short film about men playing cards—in 1896, only a year after Louis Lumière had debuted "Partie de Cartes". Two versions of "The Kiss in the Tunnel", made by the same British production company, came out in 1899. And Cecil B. DeMille, a titan of early Hollywood, thought "The Squaw Man" was so good he made it three times: in 1914, 1918 and 1931.

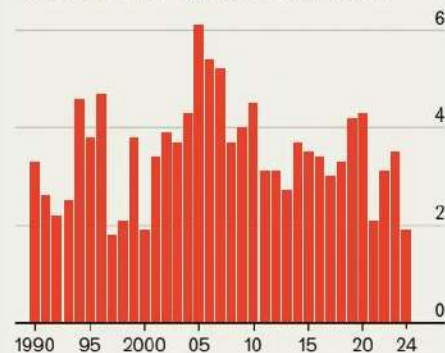
And 2026, like every other year before it, will see some more. Disney will release a live-action remake of "Moana". The animated film was a smash hit in 2016 (as any parent who has had to listen to "How Far I'll Go" on repeat will know). The remake will star Dwayne "The Rock" Johnson, a wrestler-turned-actor. Disney will be hoping for better reviews, and ticket sales, than those for its much-derided remake of "Snow White".

Greta Gerwig—the film-maker behind "Barbie", the highest-grossing film of 2023—is bound for Narnia. She has written and directed "Narnia: The Magician's Nephew", adapted from the sixth novel in C.S. Lewis's ever-popular series, which is set long before the events of "The Lion, the Witch and the Wardrobe".

Another beloved title, "The Mummy", ►►

→ Make it again, Sam

Hollywood film remakes, % of total releases



Source: Stephen Follows

will get a revival in 2026. (The film of 1999 was itself a remake of one made in 1932, proving that some ideas, like some corpses, do not decay.) This new version promises to be spookier than its predecessors: it is co-produced by Blumhouse Productions, the firm behind horror hits including “M3GAN” and “Five Nights at Freddy’s”.

The mummy will be joined in coming months by the titular character in “The Bride!”, not a charming young woman in love, but the being created at the behest of Frankenstein’s monster. This remake of a film from 1935 features a terrifyingly talented cast: Jessie Buckley as the protagonist and Christian Bale as Frankenstein’s monster, as well as Annette Bening and Penélope Cruz.

Two films based on Japanese video games, “Resident Evil” and “Street Fighter”, will also have their premieres in 2026. Both games have played out on the big screen before. In fact, no game has seen as much action in cinemas as “Resident Evil”: its seven films have grossed a total of \$1.9bn in today’s money. The producers of these films will be hoping to match the success in 2025 of “A Minecraft Movie”, based on the popular block-building game,

The new version of “The Mummy” promises to be spookier than its predecessors

which has grossed almost \$1bn to date.

Fans of 007 will be hoping that the coming year brings news of the British secret agent’s new identity, and his next outing, after Amazon acquired the rights to the James Bond franchise. The movie will be directed by Denis Villeneuve, who has excelled at bringing beloved titles such as “Dune” (itself a remake) to the screen, and written by Steven Knight, the creator of “Peaky Blinders”, a hit gangster show. But even if cameras start rolling in 2026, “Bond 26” is not expected in cinemas until 2028.

Many cinephiles lament that remakes point to a lack of creativity. It is true that studio executives like tried-and-tested ideas, but it is not the case that they are less imaginative than their predecessors. According to Stephen Follows, a film-data analyst, 1.9% of films released in American cinemas in 2000 were remakes; in 2024, the proportion remained the same. (The peak came in 2005, when 6% of theatrically released films were remakes.) Film-makers are looking further back for inspiration: in 2024 storytellers were remaking movies that, on average, had been released 27 years previously, up from 20 years in 2000. But as directors (and audiences) have known since the 1890s, you can have a blast with tales from the past. ●

Listen up

Tracking the world’s most popular music genres

Alex Selby-Boothroyd Head of data journalism, *The Economist*

“CHINESE DEMOCRACY” finally arrived in 2008. Guns N’ Roses burned through ten guitarists and \$13m recording the album, and 15 years had passed since the American band’s previous studio offering. By contrast, 15 days separated the release in June 2025 of “Floating on Echoes” and “Dust and Silence”, the first two albums by The Velvet Sundown. A few weeks later the band—a photogenically hirsute four-piece with names like Orion Del Mar and Milo Rains—dropped a third album. Their songs have been streamed millions of times and there is no chance any band members will be sacked. That is because they do not exist. The songs and images were created by artificial intelligence. But the money they generate is real, and so 2026 will see plenty more such music.

The potential audience is surprisingly large. According to Luminata, an analytics firm, one in three music listeners in America is comfortable with the use of generative AI to make instrumental songs, and more than a quarter have no problem with original songs featuring AI-generated vocals. A “dark country project” called

Aventhis, with AI-generated songs such as “I’m a Dead Man Walkin’”, has racked up over 25m listens across YouTube, TikTok and Spotify. With negligible production costs and plenty of streaming money to be made, more are sure to follow.

Beyond the artificial—but only just—2026 will also be a big year for Korean pop. The success of “KPop Demon Hunters”, Netflix’s most-watched film, has propelled its two fictional k-pop bands to the top of music charts globally. At least one sequel is on its way, and Luminata expects more instances of “transmedia”, where a unified story or brand is pushed across multiple platforms. Meanwhile, all seven members of BTS, South Korea’s leading boyband, have now completed their military service and a new album and world tour are promised in 2026.

Globally, no single genre is likely to dominate as regional markets continue to diverge. In the United Arab Emirates, for example, 92% of tracks streamed are by artists from outside the region: Reggaeton and Bollywood songs prevail over those from the Middle East and Africa. In Latin America, Peru is most receptive to artists from outside the region, yet they account for only 36% of streams there. And Brazil and India are heavily localised, with around three-quarters of streams coming from home-grown artists.

Rather than a handful of big genres dominating the music scene in the year ahead, multiple subgenres will continue to flourish. Rosalía, a Catalan singer who blends flamenco and Spanish folk with avant-garde electronic music, has announced a global tour. Christian rap, also known as holy hip-hop, has seen serious growth in America. And Megadeth, a thrash-metal band, are set to hang up their double bass-drums after a 17th album and farewell tour. ●



Obituary

The penny drops

Production of one-cent coins in America will come to an end during 2026

Ann Wroe Obituaries editor,
The Economist

IN SOLITARY STATE, the small brown coin lay on the windowsill of the potting shed. Occasionally, a spider or a fly came by; he wore cobwebs, and a light scattering of dust. The morning sun warmed him, then moved away. He had been placed there “in case”, and so he waited.

Small he might be, but he still cut a decent figure of a coin. “He”, of course, because he bore Abraham Lincoln’s stern, whiskered image on his obverse, with the stirring words “In God We Trust”. On his reverse was the Lincoln Memorial. This was proof that he had been minted between 1959 and 2009, if anyone needed to know. No one did. No one needed him for much of anything, these days. The folk at the Mint kept remarking, woundingly, that it cost more to make each penny (in 2024, 3.69 cents) than it was worth; which cost them \$85m a year. That was why, they explained, they would be ending production in 2026.

It was true that he didn’t have that healthy red copper glow, because he did not have much copper in him: 2.5%, as a thin plating, whereas his earliest ancestor, born at an impressive weight in 1787, had been copper through and through. He was almost entirely zinc, the material of hip-baths and feed buckets. But he had still shone once, and could have made a fine beau for a “draped bust” Liberty penny, if she hadn’t been far too old for him.

He lay alone. And that was odd in itself, because his life had been generally spent in the clinking company of others. With half a dozen in a pocket, picking up lint and gum-wrappers; sliding round in the bottom of a purse, bruised by compacts and smothered with tissues; jolting forward and back in the compartments of old cash tills. Later he had been crammed in a jar with perhaps 100 others on a kitchen shelf, their edges in his face, for what seemed like years. Someone in Alabama had once collected 1.3m pennies over 38 years, storing them in 55-gallon drums in the garage. Thank the Lord he had not ended up in one of those.

For some time now, people had soured on him. He was a nuisance. Vending machines spat him out, not liking the zinc.



When he was handed over in change, shoppers waved him contemptuously away with “Keep the penny”, or even left him behind. Increasingly, they simply waved a card and ignored him—though, to be fair, they also ignored the noisy nickels and the stuck-up dimes. He had spent longer and longer simply lying around.

It had not always been so. You could buy a loaf of bread with a cent back in revolutionary times, or a pint of beer. The life of a penny would have been sprightly then, slapped down on wet tavern counters and floury shelves. In 1825 a cent bought you half a pound of sugar or five pounds of potatoes; in 1869, a Bible tract; in 1909, a copy of the *New York Tribune*, and in the 1930s about a mile of rail travel. But in the end all you could buy for one cent was a Tootsie Roll, and those, too, shrank away.

In economic terms, however, he liked to think he was still important, encouraging careful budgeting and exactitude. With coins like him circulating, there was no need to round up to a nickel; the price was calculated down to the smallest detail (namely, him). Rounding up just fuelled

inflation. But when a Donald Trump Action Man was priced at \$19.99, rather than \$20, people were more inclined to buy it, boosting the economy. People said that snipped-off penny was a delusion that made no difference: but 170,000 workers at General Motors had gone on strike in 1946 because they were offered a rise that was one cent less than they had demanded. That single cent meant dignity to them.

Then there was the matter of charity. Where would all those tins and boxes be, without the likes of him? In several cities cents were harvested for good causes; schoolchildren collected them in cloth bags. Thousands of dollars were raised that way, little by little. Folk who begrudged giving anything larger eagerly emptied their pockets of pennies, and felt lighter afterwards in every way.

Such arguments, however, plainly did not persuade the Mint. What, then, was his future, and that of any other penny? As an accessory, perhaps. After all, pennies were lucky. Around 70% of Americans said they would still pick one up, if they saw one. Senator John McCain kept a lucky penny in his left-hand trouser pocket—though he also had a lucky pen, shoes, stone, compass and feather. A good-looking cent, as cents went, he could become a button, or a pendant. There were worse fates, such as being thrown in a fountain, or pressed into an oval dog-tag at some historic attraction.

Thus he mused, and wondered what his owner meant by putting him aside “in case”. But the more he thought, the more he realised his usefulness. He could prise the ring from a can, space out tiles and turn fridge thermostats. Glued to a leg, he could stop a chair from wobbling. If he had had a bit more copper in him, he could have extended the life of cut flowers (copper being antimicrobial), and cleaned tarnished metals. He could still give it a go.

None of this was what he had been made for. And so, with humility, he accepted his new purpose in national life. Perhaps, some day, he would hear his owner say: “Glad I kept that penny.” In the far future he might become as rare and valuable as the Liberty penny he still vaguely loved. This was his chief comfort: that some people, at least, would still appreciate that face value and intrinsic worth are not at all the same thing. ●

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