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American foreign policy after Brexit

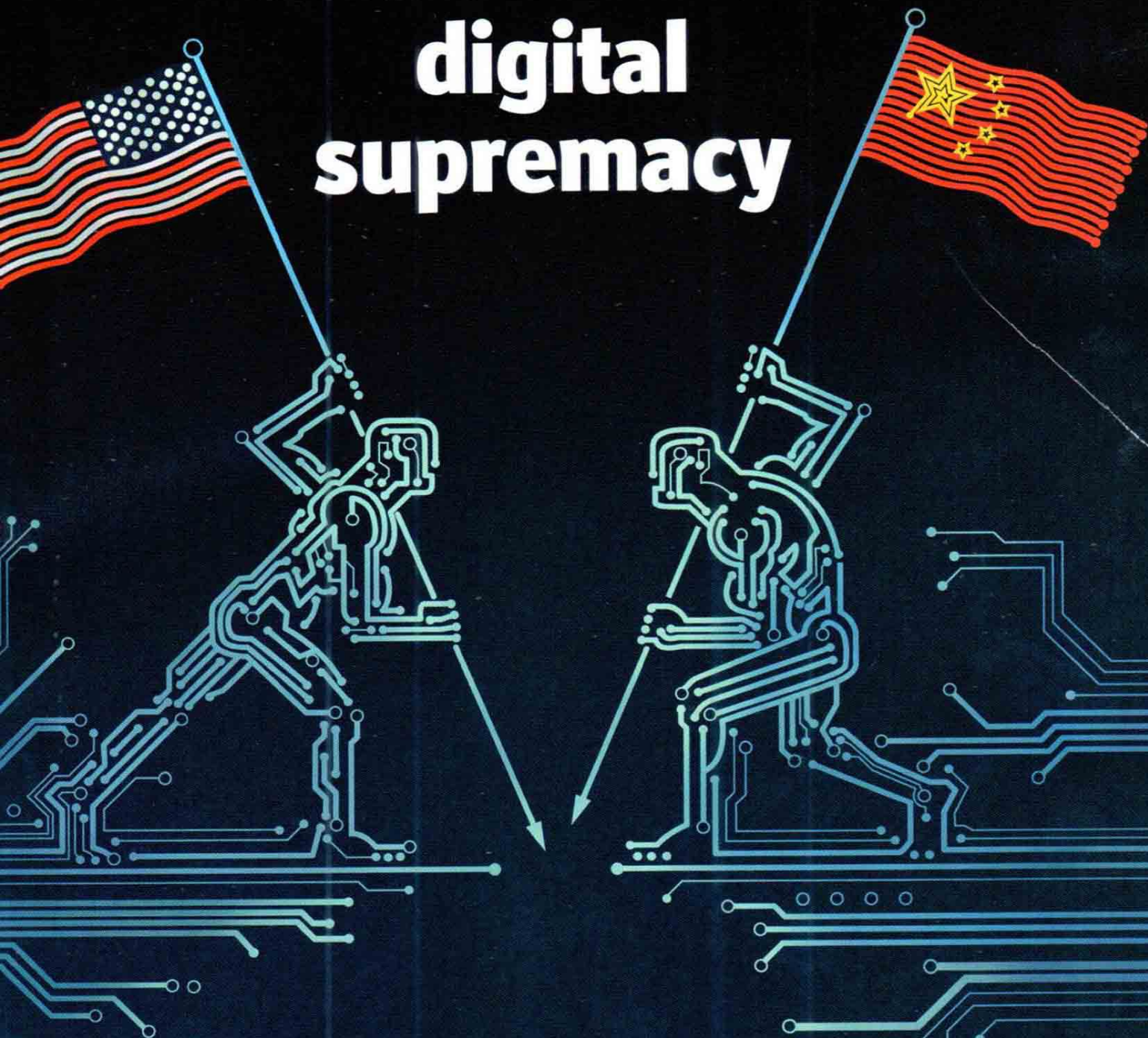
How to deal with Vladimir Putin

Grow me a coral reef

A SPECIAL REPORT ON ENERGY GEOPOLITICS

MARCH 17TH-23RD 2018

The battle for digital supremacy



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China.....	RMB 80	Japan.....	¥1,259+Tax	Nepal.....	NR700	Singapore.....	S\$13.50 (Inc.GST)	Vietnam.....	US\$8.00



On the cover
The battle for digital supremacy. How to engage and how not to: leader, page 11. By blocking Broadcom's takeover of Qualcomm, President Trump has shown how worried America is about Chinese tech. It has a point. It doesn't have an answer, page 19. If China cannot placate Donald Trump, it will fight him instead, page 67. In America a political coalition in favour of protectionism may be emerging: Free exchange, page 70

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8 The world this week

Leaders

- 11 **America v China**
The battle for digital supremacy
- 12 **Sergei Skripal**
A poisoned relationship
- 12 **American foreign policy**
After Rexit
- 13 **Energy**
Electric dreams
- 14 **Democracy in Africa**
Tanzania's sickening lurch

Letters

- 16 **On Afghanistan, Billy Graham, Malaysia, accounting, Tom Lehrer**

Briefing

- 19 **Technopolitics**
The challenger

Asia

- 23 **Women in India**
Stuck in the back
- 24 **Japanese politics**
School of hard knocks
- 26 **Kangaroo culling**
Roo barbs
- 28 **North Korea and America**
The summit of all fears
- 30 **Banyan**
Moon Jae-in's moment

China

- 31 **Religious freedom**
New commandments
- 32 **Administrative reform**
Party time

United States

- 33 **The White House**
Trump Unbound
- 34 **Pennsylvania's election**
Lamb sauce
- 35 **The right to bear arms**
A minor skirmish
- 36 **The White House**
From Gary to Larry

- 36 **Pirates and #MeToo**
Hornswoggled
- 37 **Ex-Muslims**
Losing their religion
- 38 **Lexington**
Mike Pompeo

The Americas

- 39 **Colombia**
Adiós, Santos
- 40 **Venezuela's "petro"**
Salvation or scam?
- 42 **Bello**
Transgender trauma

Special report: The geopolitics of energy

The new superpowers
After page 42

Middle East and Africa

- 43 **Tanzania**
Falling into dictatorship
- 44 **Nigerian self-sufficiency**
Grow your rice and eat it
- 45 **Africa's economic paradox**
Why is life expensive?
- 45 **Tuaregs and tagliatelle**
Saharan pasta smugglers
- 46 **Ageing, ailing autocrats**
Arab statesmen
- 46 **LGBT rights in Tunisia**
Come out and listen

Europe

- 47 **Russia's election**
Meet the Puteens
- 48 **Italian politics**
The Democrats' dilemma
- 49 **Murder in Slovakia**
The earth cries out
- 49 **Brexit and Germany**
Selling Frankfurt
- 50 **Germany's finance minister**
One Hamburger, hold the relish
- 51 **Charlemagne**
A Berlaymonster under fire



Dealing with Russia Britain has to go after Russia's dirty money: leader, page 12. Anglo-Russian relations are at their lowest point since the cold war, page 52. States are finding new ways of killing enemies abroad, and of justifying their acts, page 55



Trump fires Rex Tillerson He was a poor secretary of state. What follows may be worse: leader, page 12. Donald Trump has had enough of being challenged over foreign policy, page 33. Mike Pompeo is where foreign-policy realism meets America First; Lexington, page 38



Tanzania A country praised for stability and growth is losing both: leader, page 14. A sudden descent into dictatorship shows why constitutions matter, page 43



Energy geopolitics Moving from oil to electricity will make the world a less combustible place. Getting there will be hard: leader, page 13. Energy transitions change the world, writes Henry Tricks. So who will be the winners and losers from clean power? See our special report after page 42



Health-care profits Which firms make the biggest killing from America's health-care system? Schumpeter, page 62



Coral reefs Mass die-offs are driving scientific efforts to create hardier varieties of coral, page 71

Britain

- 52 **Holding Russia to account**
What's your poison?
- 53 **The Spring Statement***
Dead cat bounce
- 54 **Bagehot**
Global Britain

International

- 55 **Assassinations**
Dealing in death

Business

- 57 **Renault-Nissan-Mitsubishi**
Sharing components
- 58 **Airline joint ventures**
Come fly with me
- 59 **European utilities**
E.ONwards and upwards
- 59 **Unilever**
Going Dutch
- 60 **AT&T-Time Warner**
Vertically challenged
- 60 **Theranos**
The reckoning
- 61 **China's influencers**
Not just a pretty face
- 62 **Schumpeter**
Health-care profits

Finance and economics

- 65 **Initial public offerings**
Proof of life
- 66 **Digital currencies**
Proceed with caution
- 67 **Emerging markets**
The largest blip
- 67 **Trade tensions**
A lose-lose deal
- 68 **Land in Japan**
Situation: vacant
- 69 **Housing in Japan**
Nobody's home
- 70 **Free exchange**
The politics of trade

Science and technology

- 71 **Coral reefs**
Accelerating evolution
- 72 **Psychology**
The last shall be first
- 73 **Space travel**
What goes up...
- 74 **Automotive engineering**
Riding a magic carpet
- 74 **Scientific publishing**
Crisis? What crisis?

Books and arts

- 75 **Shakespeare on stage**
All that may become a man
- 76 **Rodgers and Hammerstein**
The moon on their wings
- 77 **A beguiling Uzbek novel**
Lords of the lie
- 77 **Liberalism v democracy**
Apple against pie
- 78 **Johnson**
Beyond Wakandan

80 Economic and financial indicators

Statistics on 42 economies, plus a closer look at world GDP

Obituary

- 82 **Stephen Hawking**
The cosmos from a wheelchair



Obituary Stephen Hawking, the man who explained the universe, page 82

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Other countries Contact us as above

Principal commercial offices:

The Adelphi Building, 1-11 John Adam Street, London WC2N 6HT

Tel: +44 (0) 20 7830 7000

Rue de l'Athénée 32

1206 Geneva, Switzerland

Tel: +41 22 566 2470

750 3rd Avenue, 5th Floor, New York, NY 10017

Tel: +1 212 541 0500

1301 Cityplaza Four,

12 Taikoo Wan Road, Taikoo Shing, Hong Kong

Tel: +852 2585 3888

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Politics



Donald Trump sacked **Rex Tillerson** as secretary of state, announcing the defenestration on Twitter. Mr Tillerson had become increasingly detached from the White House as the president let it be known that he wanted to pursue a more muscular foreign policy. Concluding that his unconventional approach was reaping benefits, Mr Trump had earlier surprised South Korean envoys, and his own national-security team, by agreeing to meet Kim Jong Un for talks on **North Korea's** nuclear aims.

The new secretary of state will be **Mike Pompeo**, who currently runs the CIA. **Gina Haspel** steps up from deputy director to the top job at the CIA. She will be the first woman to hold the position if her appointment clears the Senate, where she will face tough questioning about her past supervision of "enhanced" interrogations at secret sites.

Republicans on the House Intelligence Committee released their report on **Russian meddling** in the 2016 election, concluding that provocateurs had interfered, but that there had been no collusion with the Trump campaign. Robert Mueller, the special counsel, is still investigating.

The governor of Florida, Rick Scott, signed a bill that raises the state's legal age for all **gun purchases** from 18 to 21 and introduces a three-day waiting period when buying a weapon. The law would have stopped the 19-year-old who massacred 17 people at a school near Miami from buying his semi-automatic rifle.

The Democrats claimed victory in a special election for a congressional seat in the suburbs of **Pittsburgh**. The seat had been held by the Republicans since 2003 and its voters chose Mr Trump in the presidential election by a 20-point margin. The win fired up the Democrats' hopes of taking the House in the mid-terms.

Forever Xi

China's rubber-stamp parliament, the National People's Congress, removed the two-term limit for presidents, allowing Xi Jinping to remain in office for life. It also announced the re-organisation of more than two dozen ministries and departments.

In **Hong Kong**, by-elections were held in four of the six seats where pro-democracy candidates had been removed from office for criticising the governments of China and Hong Kong during their swearing-in. The pro-democracy movement lost two of the seats, a blow to its standing.

Rodrigo Duterte, the president of the **Philippines**, threatened to withdraw his country from the International Criminal Court because it is investigating human-rights abuses in his bloody campaign against drug pushers and users.

A scandal over the sale of state land at a huge discount to a school with links to the wife of **Japan's** prime minister was revived, after the finance ministry admitted it had doctored documents relating to the sale before submitting them to parliament.

The mother of diplomatic rows **Britain** said it would expel 23 **Russian** diplomats in response to a nerve-agent attack on a former Russian spy and his daughter in Salisbury. Theresa May, the prime minister, said Moscow had reacted to the attack with "sarcasm, contempt and defiance". Russia said it would retaliate.

Lucy Allan, the MP for Telford, renewed her call for an independent inquiry into the

alleged **sexual abuse** of up to 1,000 "white working-class girls" in the English town by suspected gangs of men of South Asian origin. As with a similar case in Rotherham, the authorities have come under intense criticism for not investigating the claims because of the racial sensitivities.

Angela Merkel was sworn in as **Germany's** chancellor for a fourth term. The Social Democrats, coalition partners to her Christian Democrats, have been given the jobs of finance minister and foreign minister, filled by Olaf Scholz and Heiko Maas respectively.

The prime minister of **Slovakia**, Robert Fico, offered to stand down, following the murder of a young journalist who had been investigating official corruption. Huge crowds had demonstrated against Mr Fico in the capital, Bratislava, and other cities.

Anti-revolutionary forces

Colombians voted in legislative elections and presidential primaries. They rejected the candidates from the political party created by former rebels from the FARC, though the party is guaranteed ten seats in congress. Rodrigo Londoño, the FARC's leader, withdrew from the presidential race because of bad health. Iván Duque, the right's candidate, and Gustavo Petro, the left's man, are the front-runners in the presidential election.

Federal police in **Mexico** arrested a man they say was involved in the disappearance of 43 students from the town of Iguala in 2014. Erick Uriel Sandoval is accused of helping burn the students' bodies at a rubbish dump. Independent

experts have cast doubt on prosecutors' version of events.

Lawmakers in **Peru** put forward a motion to begin impeachment proceedings against Pedro Pablo Kuczynski, the president, who is defending himself in congress against accusations that he lied about donations from Odebrecht, a Brazilian construction firm.

Close shave

A roadside bomb in Gaza targeted the convoy of the **Palestinian** prime minister, Rami Hamdallah. The Palestinian Authority called the explosion an assassination attempt and held Hamas, the Islamist group that controls Gaza, responsible for the breakdown in security, but did not accuse it of carrying out the attack.

Israel's government settled a dispute over a bill that would extend an exemption from military service for ultra-Orthodox *yeshiva* students. The row threatened to bring down the government. However, there is speculation that Binyamin Netanyahu, the prime minister, wants an early election as he faces multiple corruption investigations.

Haider al-Abadi, the **Iraqi** prime minister, issued a decree lifting a ban on international flights to and from the **Kurdistan** region. Kurdish authorities agreed to place the airports under federal control, according to the decree.

Julius Maada Bio, a former leader of a military coup, won the first round of **Sierra Leone's** presidential election. He will face Samura Kamara, the ruling party's candidate, in the run-off.

Happiness, happiness

Burundi came last in the annual **World Happiness Report** by the UN, which ranks countries on factors such as life expectancy, freedom and corruption. Burundi edged out the Central African Republic, which came bottom last year. Norway, the happiest country in 2017, was nudged out of the top spot by Finland.

Business

In an extraordinary intervention, Donald Trump blocked **Broadcom's** hostile bid for **Qualcomm** on national-security grounds. Based in Singapore but with half its staff in America, Broadcom had been pursuing its rival chipmaker for months. To defend itself, Qualcomm had turned to the Committee on Foreign Investment in the United States, which recommended that Broadcom should be stopped. The president's order is based on a fear that allowing Qualcomm to fall into foreign hands would boost China's role in global chipmaking.

The end of a forgotten era

Blackstone, one of America's private-equity titans, revealed that China's sovereign-wealth fund had sold its holding in the firm. The stake had been purchased in 2007, the first time the Chinese fund had invested commercially in America, eliciting hopes at the time of closer business ties between the two countries.

The **securities regulator** in China slapped a 5.5bn yuan (\$871m) fine on the country's largest private owner of cargo railcars for manipulating the share price of three companies it had invested in. It was the largest penalty handed down by the regulator to date, equivalent to 70% of the fines it dished out in total last year.

Larry Kudlow was given the job of Mr Trump's economic adviser, following Gary Cohn's resignation in the wake of the president's imposition of steel tariffs. Mr Kudlow is a conservative broadcaster who may be more in tune with Mr Trump's economic agenda than Mr Cohn was. He worked in Ronald Reagan's budget office and describes himself as a "supply-sider".

The identity of the likely successor to Lloyd Blankfein as chief executive officer of **Goldman Sachs** became clearer when Harvey Schwartz

abruptly stepped down as co-president, leaving the path clear to the top job for David Solomon, the other co-president. Mr Blankfein has led the bank since 2006.

The Securities and Exchange Commission fined Elizabeth Holmes, the founder of **Theranos**, a blood-testing startup that was once a darling of Silicon Valley, \$500,000 to settle claims of fraud. Theranos fell foul of regulators in 2015 amid revelations that it had misled investors. Ms Holmes agreed to settle the charges without admitting wrongdoing.

Martin Shkreli was sentenced to seven years in prison, after being found guilty last August of securities fraud related to hedge funds he once ran. Mr Shkreli is notorious for increasing the price of some medicines by up to 5,000% at a drugs company he founded, earning him the sobriquet of America's "most hated man".

Dropbox priced its forthcoming IPO at between \$16 and \$18 a share. That values the file-sharing service at up to \$7.9bn, much less than the \$10bn it was thought to be worth at its last round of fundraising in 2014.

Following a similar decision by Facebook, **Google** said it would ban advertisements for **crypto-currencies** such as bitcoin across all its platforms, including YouTube and its display-ad network.

Tesla beware

Volkswagen laid out plans for the "massive expansion" of its range of **electric cars**. The German company will open 16 production sites within five years in Europe, China and America to make electric vehicles, with a goal of selling 3m a year by 2025. It also announced partnerships with manufacturers to supply car batteries to Europe and China. Meanwhile, **GEM**, a battery-recycling firm in Shenzhen, signed a contract with Glencore to provide it with 50,000 tonnes of **cobalt**, a key element in car batteries. That is half the total amount of cobalt produced worldwide last year.

Unilever chose Rotterdam as the site for the headquarters of a new unified company. It is a symbolic blow to the British government, which had hoped the Anglo-Dutch consumer-goods group would keep its headquarters in London. The company denied that the decision was connected to Brexit.

In a complex transaction that reshapes Germany's power industry, **E.ON** and **RWE** agreed to swap assets in a deal that leaves E.ON as an operator of energy networks with a large retail presence and RWE as a producer of renewable energy. Utilities have been forced to reconfigure their businesses in response to the government's **Energiewende** policy, which directs them to pivot towards renewables.

Shop till someone else drops



Under pressure from Amazon in the mushrooming market for online food shopping, **Walmart** announced that it will extend its grocery-delivery service to more than 100 American cities. Instead of using its own drivers Walmart will employ transport startups, including Uber.

For other economic data and news see Indicators section



The battle for digital supremacy

How to engage and how not to



“DESIGNED by Apple in California. Assembled in China”. For the past decade the words embossed on the back of iPhones have served as shorthand for the technological bargain between the world’s two biggest economies: America supplies the brains and China the brawn.

Not any more. China’s world-class tech giants, Alibaba and Tencent, have market values of around \$500bn, rivalling Facebook’s. China has the largest online-payments market. Its equipment is being exported across the world. It has the fastest supercomputer. It is building the world’s most lavish quantum-computing research centre. Its forthcoming satellite-navigation system will compete with America’s GPS by 2020.

America is rattled. An investigation is under way that is expected to conclude that China’s theft of intellectual property has cost American companies around \$1trn; stinging tariffs may follow. Earlier this year Congress introduced a bill to stop the government doing business with two Chinese telecoms firms, Huawei and ZTE. Eric Schmidt, the former chairman of Alphabet, Google’s parent, has warned that China will overtake America in artificial intelligence (AI) by 2025.

This week President Donald Trump abruptly blocked a \$142bn hostile takeover of Qualcomm, an American chipmaker, by Broadcom, a Singapore-domiciled rival, citing national-security fears over Chinese leadership in 5G, a new wireless technology. As so often, Mr Trump has identified a genuine challenge, but is bungling the response. China’s technological rise requires a strategic answer, not a knee-jerk one.

The motherboard of all wars

To understand what America’s strategy should be, first define the problem. It is entirely natural for a continent-sized, rapidly growing economy with a culture of scientific inquiry to enjoy a technological renaissance. Already, China has one of the biggest clusters of AI scientists. It has over 800m internet users, more than any other country, which means more data on which to hone its new AI. The technological advances this brings will benefit countless people, Americans among them. For the United States to seek to keep China down merely to preserve its place in the pecking order by, say, further balkanising the internet, is a recipe for a poorer, discordant—and possibly warlike—world.

Yet it is one thing for a country to dominate televisions and toys, another the core information technologies. They are the basis for the manufacture, networking and destructive power of advanced weapons systems. More generally, they are often subject to extreme network effects, in which one winner establishes an unassailable position in each market. This means that a country may be squeezed out of vital technologies by foreign rivals pumped up by state support. In the case of China, those rivals answer to an oppressive authoritarian regime that increasingly holds itself up as an alternative to liberal democracy—particularly in its part of Asia. China insists that it

wants a win-win world. America has no choice but to see Chinese technology as a means to an unwelcome end.

The question is how to respond. The most important part of the answer is to remember the reasons for America’s success in the 1950s and 1960s. Government programmes, intended to surpass the Soviet Union in space and weapons systems, galvanised investment in education, research and engineering across a broad range of technologies. This ultimately gave rise to Silicon Valley, where it was infused by a spirit of free inquiry, vigorous competition and a healthy capitalist incentive to make money. It was supercharged by an immigration system that welcomed promising minds from every corner of the planet. Sixty years after the Sputnik moment, America needs the same combination of public investment and private enterprise in pursuit of a national project.

Why use a scalpel when a hammer will do?

The other part of the answer is to update national-security safeguards for the realities of China’s potential digital threats. The remit of the Committee on Foreign Investment in the US (CFIUS), a multi-agency body charged with screening deals that affect national security, should be expanded so that minority investments in AI, say, can be scrutinised as well as outright acquisitions. Worries about a supplier of critical components do not have to result in outright bans. Britain found a creative way to mitigate some of its China-related security concerns, by using an evaluation centre with the power to dig right down into every detail of the hardware and software of the systems that Huawei supplies for the telephone network.

Set against these standards, Mr Trump falls short on every count. The Broadcom decision suggests that valid suspicion of Chinese technology is blurring into out-and-out protectionism. Broadcom is not even Chinese; the justification for blocking the deal was that it was likely to invest less in R&D than Qualcomm, letting China seize a lead in setting standards.

Mr Trump has reportedly already rejected one plan for tariffs on China to compensate for forced technology transfer but only because the amounts were too small. Were America to impose duties on Chinese consumer electronics, for example, it would harm its own prosperity without doing anything for national security. An aggressively anti-China tack has the obvious risk of a trade tit-for-tat that would leave the world’s two largest economies both worse off and also more insecure.

Mr Trump’s approach is defined only by what he can do to stifle China, not by what he can do to improve America’s prospects. His record on that score is abysmal. America’s federal-government spending on R&D was 0.6% of GDP in 2015, a third of what it was in 1964. Yet the president’s budget proposal for 2019 includes a 42.3% cut in non-defence discretionary spending by 2028, which is where funding for scientific research sits. He has made it harder for skilled immigrants to get visas to enter America. He and some of his party treat scientific evidence with contempt—specifically the science which warns of the looming threat of climate change. America is right to worry about Chinese tech. But for America to turn its back on the things that made it great is no answer. ■