

The Economist

APRIL 28TH - MAY 4TH 2018

Kim Jong Un, misunderstood youth

Macron's gamble in Washington

Have Treasuries tipped?

The climate's methane mystery

Within reach

Universal health care, worldwide



Australia.....	AS12(inc.GST)	Hong Kong.....	HK\$ 90	Korea.....	Won 12,000	New Zealand.....	NZ\$15.00	Sri Lanka.....	Rs1,200
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Cambodia.....	US\$8.00	Indonesia.....	Rp90,000	Myanmar.....	US\$8.00	Philippines.....	Pesos450	Thailand.....	Baht 300
China.....	RMB 80	Japan.....	¥1,259+Tax	Nepal.....	NR700	Singapore.....	S\$13.50 (inc.GST)	Vietnam.....	US\$8.00



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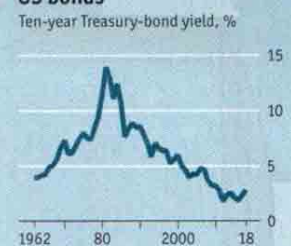
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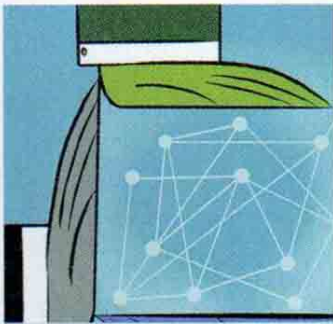
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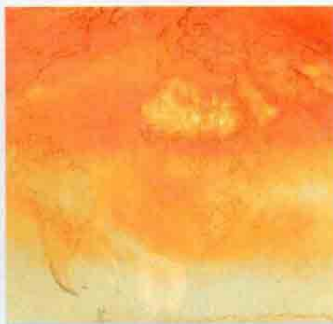
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Politics



Dozens of people were killed in protests in **Nicaragua**. People are furious that the regime of President Daniel Ortega emptied the public pension pot and then ordered workers to top it up. The protests lasted for days, even after Mr Ortega backed down. Several ugly sculptures erected by his wife were wrecked by angry mobs. Independent news channels were blocked by censors; a journalist was killed while recording a broadcast.

Mario Abdo Benítez won **Paraguay's** presidential election, maintaining the ruling Colorado Party's grip on power. The former senator beat Efraín Alegre, of the Liberal opposition.

In the first of three televised debates, **Mexico's** five presidential candidates sparred over how to reduce crime and violence. Most pundits thought Ricardo Anaya, the centrist candidate, gave the best performance, but polling gives Andrés Manuel López Obrador, the left's man, a lead of up to 20 percentage points. The election is on July 1st.

Prosecutors in **Guatemala** working with CIGIG, a UN-backed anti-corruption commission, accused President Jimmy Morales's party of accepting more than \$1m in illegal donations during the campaign in 2015. A group of prominent businessmen apologised for funding him. Mr Morales claims he is innocent.

In **Toronto** the driver of a van that ploughed into pedestri-

ans, killing ten, was charged with murder. Before the attack the driver announced on Facebook that a revolt of involuntarily celibate men—who resent women for not having sex with them—had begun. Most of the dead were women.

Harmony breaks out

North Korea announced that it was suspending missile launches and nuclear tests, in advance of a summit between its leader, Kim Jong Un, and South Korea's president, Moon Jae-in. South Korea, for its part, stopped blaring propaganda, including K-pop music, across the border with the North.

Setya Novanto, a former Speaker of the lower house of **Indonesia's** parliament, was sentenced to 15 years in prison for corruption. The case had been seen as a test of the country's justice system.

A suicide-bomber killed 60 people who were registering to vote in Kabul, the capital of **Afghanistan**. Parliamentary elections, currently scheduled for October, have already been delayed by three years because of squabbling within the government.

Police in **Shanghai** arrested eight people in connection with what officials described as a Ponzi scheme operated by a Chinese company, Shanlin Financial. They have been accused of illegally raising more than 60bn yuan (\$9.5bn), using money deposited by new investors to pay long-standing ones.

The former chief regulator of **China's** insurance industry, Xiang Junbo, was formally charged with bribe-taking. Mr Xiang was sacked last year. His agency was merged with the banking regulator last month.

A new terror

An attack on a church in **Nigeria** left at least 19 people dead, including two priests, in the latest incident of violence between nomadic herders and farmers in the country's volatile middle belt. The escalating conflict is now claiming more

lives than an insurgency in the north-east of the country by jihadist groups, including Boko Haram.

A parliamentary committee in **Zimbabwe** summoned Robert Mugabe, the former president, to testify in relation to allegations that up to \$15bn-worth of diamonds were looted from government-controlled mines.



Palestinians in **Gaza** demonstrated along the border fence with Israel for the fourth time in recent weeks. **Israel** says Hamas, the Islamist movement that rules Gaza, is using the protests as cover for attacks. Israel has shot and killed 40 Palestinians over the course of the protests, according to Gaza's health ministry.

An air strike hit a wedding in **Yemen**, killing dozens of people. The Houthi rebels blamed the Saudi-led coalition that is fighting on behalf of Yemen's deposed government. The secretary-general of the UN, António Guterres, called for an investigation.

Out of office message

Armenia's president-turned-prime minister, Serzh Sargsyan, resigned days after being elected to his new job following huge demonstrations against him, including by off-duty members of the armed forces. Russia declined to intervene.

Peter Madsen, a renowned **Danish** inventor, was sentenced to life in prison for the murder of a Swedish journalist, Kim Wall. Ms Wall's dismembered body was found off the coast of Copenhagen in August. She had visited Mr Madsen's submarine for an interview.

Germany's Social Democrats formally elected Andrea Nahles as their leader, the first woman to head the party. Ms Nahles has a battle trying to unite the SPD after its battering at last year's general election and contentious decision to join another grand coalition with the Christian Democrats.

The ask Haspel show

The Senate Foreign Relations Committee voted in favour of **Mike Pompeo** as secretary of state. A few hesitant Democrats in the full Senate threw their support behind his appointment. It was less clear whether the woman chosen to succeed Mr Pompeo as director of the CIA will be confirmed. Concerns have been raised about **Gina Haspel's** past involvement in torture. A battalion of retired military officers have voiced their objections to her nomination.

The **Republicans** held a congressional seat in the suburbs of Phoenix, but with their majority slashed from 37 percentage points in 2016 to just five. It is the latest special election indicating a swing towards the Democrats ahead of the mid-terms in November.



Emmanuel Macron went to Washington on a state visit, the first of the Trump administration. Last year the French president charmed Donald Trump at the Bastille parade in Paris. He used his trip to the American capital to try to persuade Mr Trump not to pull out of the agreement monitoring Iran's nuclear programme, which Mr Trump wants to "fix". In a speech to Congress, delivered in flawless English, Mr Macron decried the rise of nationalism in various parts of the world.

Business

The yield on America's **ten-year Treasury bond** passed 3% for the first time since early 2014. Stockmarkets frowned, as investors worried that a climbing yield on the benchmark bond would lead to higher borrowing costs. In the aftermath of the financial crisis, when central banks hoovered up trillions of dollars-worth of government bonds, the ten-year yield fell to historic lows. It has risen steadily this year in part because the Federal Reserve is continuing along its path of tightening monetary policy.

A muddle for Murdoch

Comcast formally submitted a £22bn (\$31bn) bid for **Sky**, Britain's premier subscription-TV broadcaster. That prompted Sky to withdraw its recommendation to accept an offer from **21st Century Fox**, which owns 39% of Sky and wants to buy the remaining 61% in order to sell the lot to Disney, along with Fox's other entertainment assets.

Vincent Bolloré, one of the richest businessmen in France, was placed under formal investigation in a corruption probe. A former subsidiary of his Bolloré Group is alleged to have supported the election campaigns of politicians in Guinea and Togo in 2009 and 2010 in return for port contracts. Mr Bolloré and his firm deny wrongdoing.

After rejecting four previous offers, **Shire**, which specialises in drugs for rare diseases and is listed in London, said it was willing to recommend to shareholders a preliminary takeover bid from **Takeda**, a smaller Japanese rival. The deal is worth £46bn (\$64bn). If completed the combined company would rank alongside industry giants such as Bayer and GlaxoSmithKline.

Christian Sewing used his first quarterly earnings report since becoming chief executive at **Deutsche Bank** to lay out sweeping changes to its in-

vestment-banking and trading divisions. Revenue from trading plunged by 17% in the first quarter compared with the same period last year, a stark contrast with Deutsche's American rivals, which posted strong growth in trading income. Deutsche now plans to shrink its business in America, a move that activist investors had been pushing for, in order to focus on commercial clients in Europe. The German bank's overall net income fell by 79% to €120m (\$147m).

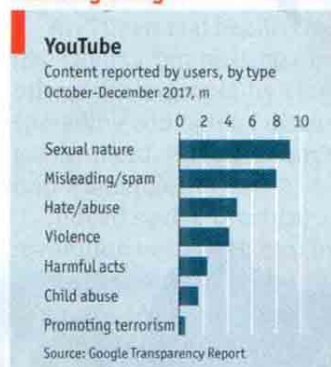
Barclays said that Britain's financial-conduct regulators had finished their investigation into Jes Staley, the bank's chief executive, over his attempt to uncover the identity of a whistleblower, and that they have proposed he pay a financial penalty, but "are not alleging...that he lacks fitness and propriety" to continue in his job.

The Irish government reached an agreement with **Apple** over repaying the €13bn (\$16bn) in back taxes that the European Union's competition regulator has decided are owed to Ireland. The government and Apple are both appealing against the regulator's ruling from 2016, which found that Ireland's low-tax arrange-

ments with the tech company constituted illegal state aid. Until the appeals process is exhausted, Apple will pay the €13bn into an escrow account.

Soaring revenues from advertising pushed **Facebook's** net profit in the first quarter up by 63% year on year, to \$5bn. The number of monthly active users grew sharply to 2.2bn in the three-month period (the Cambridge Analytica scandal emerged at the tail end of the quarter). Alphabet, **Google's** parent company, saw its net profit increase by 73% to \$9.4bn.

Planting a flag



Meanwhile, **YouTube**, which is owned by Google, published its first data on the videos it removes from its website. Nearly 8.3m videos were taken down in the last three months of 2017 for violating YouTube's

guidelines; four-fifths of them had been identified by machine-learning algorithms. Around 30m people objected to videos; 1.5m were taken down because of human complaints. Of those that were flagged by people, sexual content caused the most concern, accounting for 30% of all videos reported.

Twitter reported net income of \$61m for the first three months of the year, its second consecutive quarterly profit following years of losses. The social network now has 336m monthly active users. Its profile has been lifted by one very active user, Donald Trump, who has posted 37,400 tweets (and counting) since signing up in March 2009.

Baby, you can't drive my car

Compelled to make its deliveries ever more convenient, **Amazon** demonstrated a service that allows couriers to leave packages in customers' cars, which can be unlocked with a wireless connection. The service is available for certain types of vehicles with the required technology and certain types of drivers with the required level of trust.

For other economic data and news see Indicators section



Within reach

The case for universal health care is a powerful one—including in poor countries



BY MANY measures the world has never been in better health. Since 2000 the number of children who die before they are five has fallen by almost half, to 5.6m. Life expectancy has reached 71, a gain of five years. More children than ever are vac-

inated. Malaria, TB and HIV/AIDS are in retreat.

Yet the gap between this progress and the still greater potential that medicine offers has perhaps never been wider. At least half the world is without access to what the World Health Organisation deems essential, including antenatal care, insecticide-treated bednets, screening for cervical cancer and vaccinations against diphtheria, tetanus and whooping cough. Safe, basic surgery is out of reach for 5bn people.

Those who can get to see a doctor often pay a crippling price. More than 800m people spend over 10% of their annual household income on medical expenses; nearly 180m spend over 25%. The quality of what they get in return is often woeful. In studies of consultations in rural Indian and Chinese clinics, just 12-26% of patients received a correct diagnosis.

That is a terrible waste. As this week's special report shows, the goal of universal basic health care is sensible, affordable and practical, even in poor countries. Without it, the potential of modern medicine will be squandered.

How the other half dies

Universal basic health care is sensible in the way that, say, universal basic education is sensible—because it yields benefits to society as well as to individuals. In some quarters the very idea leads to a dangerous elevation of the blood pressure, because it suggests paternalism, coercion or worse. There is no hiding that public health-insurance schemes require the rich to subsidise the poor, the young to subsidise the old and the healthy to underwrite the sick. And universal schemes must have a way of forcing people to pay, through taxes, say, or by mandating that they buy insurance.

But there is a principled, liberal case for universal health care. Good health is something everyone can reasonably be assumed to want in order to realise their full individual potential. Universal care is a way of providing it that is pro-growth. The costs of inaccessible, expensive and abject treatment are enormous. The sick struggle to get an education or to be productive at work. Land cannot be developed if it is full of disease-carrying parasites. According to several studies, confidence about health makes people more likely to set up their own businesses.

Universal basic health care is also affordable. A country need not wait to be rich before it can have comprehensive, if rudimentary, treatment. Health care is a labour-intensive industry, and community health workers, paid relatively little compared with doctors and nurses, can make a big difference in poor countries. There is also already a lot of spending on health in poor countries, but it is often inefficient. In India and Nigeria, for example, more than 60% of health spending is

through out-of-pocket payments. More services could be provided if that money—and the risk of falling ill—were pooled.

The evidence for the feasibility of universal health care goes beyond theories jotted on the back of prescription pads. It is supported by several pioneering examples. Chile and Costa Rica spend about an eighth of what America does per person on health and have similar life expectancies. Thailand spends \$220 per person a year on health, and yet has outcomes nearly as good as in the OECD. Its rate of deaths related to pregnancy, for example, is just over half that of African-American mothers. Rwanda has introduced ultrabasic health insurance for more than 90% of its people; infant mortality has fallen from 120 per 1,000 live births in 2000 to under 30 last year.

And universal health care is practical. It is a way to prevent free-riders from passing on the costs of not being covered to others, for example by clogging up emergency rooms or by spreading contagious diseases. It does not have to mean big government. Private insurers and providers can still play an important role.

Indeed such a practical approach is just what the low-cost revolution needs. Take, for instance, the design of health-insurance schemes. Many countries start by making a small group of people eligible for a large number of benefits, in the expectation that other groups will be added later. (Civil servants are, mysteriously, common beneficiaries.) This is not only unfair and inefficient, but also risks creating a constituency opposed to extending insurance to others. The better option is to cover as many people as possible, even if the services available are sparse, as under Mexico's Seguro Popular scheme.

Small amounts of spending can go a long way. Research led by Dean Jamison, a health economist, has identified over 200 effective interventions, including immunisations and neglected procedures such as basic surgery. In total, these would cost poor countries about an extra \$1 per week per person and cut the number of premature deaths there by more than a quarter. Around half that funding would go to primary health centres, not city hospitals, which today receive more than their fair share of the money.

The health of nations

Consider, too, the \$37bn spent each year on health aid. Since 2000, this has helped save millions from infectious diseases. But international health organisations can distort domestic institutions, for example by setting up parallel programmes or by diverting health workers into pet projects. A better approach, seen in Rwanda, is when programmes targeting a particular disease bring broader benefits. One example is the way that the Global Fund to Fight AIDS, Tuberculosis and Malaria finances community health workers who treat patients with HIV but also those with other diseases.

Europeans have long wondered why the United States shuns the efficiencies and health gains from universal care, but its potential in developing countries is less understood. So long as half the world goes without essential treatment, the fruits of centuries of medical science will be wasted. Universal basic health care can help realise its promise. ■

► did America, saying that it “compromised our values, stained our national honour, and threatened our historical reputation.” Torture, even when it is carried out in defence of America, is un-American. Ms Haspel should have seen that.

Second, the prohibition on torture is less secure than it was when Barack Obama left office. In 2015 Congress passed a law restricting the army and the CIA to using techniques approved in the Army Field Manual. However, when campaigning, Mr Trump said he favoured bringing back “a hell of a lot worse than waterboarding”, though there is no sign that he has sought to do so in office. Mr Pompeo has said he is open to us-

ing waterboarding; Jeff Sessions, the attorney-general, voted against the law of 2015 because he thought the CIA ought not to be constrained. In the right circumstances it is not hard to imagine the White House changing its legal guidance.

The CIA’s leading role in interrogation and Ms Haspel’s record put torture at the heart of her confirmation in a way that it has not been for other appointees. In her hearing she must set out what she considers to be torture, and then say whether she would follow an order from a president to carry out such treatment. Only if she acknowledges that what she did before was wrong should Ms Haspel win control of the CIA. ■

Financial regulation

Taming crypto

Crypto-assets need corralling. Here is a guide to how much oversight is required



THE wild ride seems to have calmed. Late last year speculators sent the price of crypto-currencies soaring. The value of bitcoin, the best-known, has fallen by half since then. But the momentum behind all things crypto remains powerful. Bitcoin is still worth seven times what it was just a year ago. In the first quarter of this year, according to CoinDesk, a news service, \$6.3bn was raised through initial coin offerings (ICOs), a form of funding in which firms issue digital tokens, more than in all of 2017. Last month the Student Loan Report, a website, found that one in five American students it asked had used part of their loan to join the crypto rush.

No wonder regulators want to exert greater control over the crypto-sphere. The chance to raise money via ICOs has attracted as many con men as it has genuine entrepreneurs. The head of Europol, Europe’s policing agency, has estimated that 3-4% of the region’s criminal proceeds are now laundered through crypto-assets. Plenty in the industry think regulation would help legitimise crypto. Yet crypto-enthusiasts are also right to fear that overzealous regulation, like China’s ban on crypto-exchanges and ICOs, could throttle a promising technology. To achieve the right balance, regulators must find sensible answers to three questions: what are crypto-assets? How should day-to-day risks be managed? And what threat do they pose to financial stability?

Today there is no consensus on what a crypto-asset is. Even within countries, authorities disagree on how to classify them. Are they a commodity, a currency, a security or their own, peculiar asset class? In America the Securities and Exchange Commission has hinted that it will treat most tokens issued through ICOs as securities. That would mean onerous disclosure requirements. But a blanket approach does not capture the shape-shifting nature of many digital assets. Better to go the way of the Swiss regulator, FINMA, which in February said it would base treatment on their actual function—ie, whether they are used for payments; as a utility token that gives its holder access to a specific service; or as an investment. This also means a token’s classification can change over time.

Such decisions point towards how to deal with day-to-day crypto-risks, from money-laundering to consumer protection.

Criminals were among the earliest adopters of digital currencies. Regulation could help smoke them out by extending existing anti-money-laundering rules into the crypto-sphere (see Finance section). The obvious targets are the exchanges where ordinary money is swapped for crypto and vice versa. Regulators should demand that these exchanges apply similar standards to those of banks. These include requiring identification from all customers and keeping a record of unusual transactions. Several countries, including Australia and South Korea, already do this; earlier this month the EU passed a directive stipulating the same thing. There is a need for a harmonised approach, in order to prevent illicit flows of money to crypto-havens.

As for how much protection consumers should enjoy when they invest in crypto-assets, some advocate restricting the market to accredited investors, on the ground that they may be better at judging risks than ordinary punters and are certainly more cushioned against any losses. But the bar to imposing bans on how people can risk their own money ought to be high. The authorities in many countries issue explicit warnings about the risks associated with crypto-speculation; several are clamping down on the advertising of ICOs. That, allied with existing rules to punish out-and-out fraud, is sufficient.

The third question is easily answered at the moment. Crypto-assets do not yet pose a risk to global financial stability; cumulatively, they are worth less than 3% of the combined balance-sheets of the central banks in America, Britain, Germany and Japan. But the wild swings of bitcoin are a warning that things can quickly change. Regulators must keep a weather eye on the factors that could heighten systemic risk, such as the amount of borrowing done by crypto-investors.

Lassoing cryptos

Regulating crypto-assets is no easy task. Too much red tape may hamper innovation. Some think, for example, that ICOs could give rise to a new form of “crypto co-operative” in which digital tokens provide founders, employees and users with a shared interest in its success. At the same time, a market in which scammers and criminals roam freely deters honest actors from taking part. The fact that all of this is new technological terrain adds to the pressure on regulators to show unusual flexibility. For as long as crypto has its Wild West image, regulators will need to keep their frontier mentality. ■

Lessons from the past for AI

Your special report on artificial intelligence in business (March 31st) mused that “AI will make workplaces more efficient, safer—and much creepier”. The emphasis on industrial engineering on the factory floor in the mid-20th century brought about men with clipboards telling employees exactly how to do their job, even going so far as to tell workers not to think, just perform. But in the 1970s one company that got its quality-control process right was Toyota. The secret to its success was integrating workers with new production-system techniques. Employees were respected for knowing most about the processes they used each day and, after training, were handed more control over their work. More important, they were given the opportunity to solve problems and continuously improve their processes. It was the workers who could connect the dots.

Companies seeking to utilise AI as the next stage in industrial management must incorporate these lessons into their systems, appreciating workers for their knowledge of what really happens in the day-to-day process, their creative potential and their basic humanity. Otherwise, as with industrial engineering, I suspect they may find themselves with bitter employee robots, antagonistic unions and disappointing results.

TIM LEVEQUE
*Hilton Head Island,
South Carolina*

Sewage treatment

It is true that, seemingly against the odds, Bangladesh has made enormous progress in reaching our poorest and most marginalised communities with better sanitation facilities (“Beating the bugs”, March 24th). The country has almost eradicated open defecation through community-led sanitation programmes and by investing heavily in shared latrines, particularly in its fast-growing slums. The positive effect this has had on

people's lives includes improving health and productivity and getting more children into schools.

But the battle is not yet won. Nearly one in three people use unimproved sanitation services. Diarrheal diseases still claim the lives of 2,220 children each year. Moreover, Bangladesh's location on the front line of climate change threatens to reverse this progress, through rising sea levels and extreme flooding. One-third of our delta nation was submerged under monsoon rains last year. Without adaptation to become more resilient to flooding, these rains can sweep away latrines, contaminate water sources and threaten a return of widespread diarrheal illness. So though there is cause for celebration, there is little room for complacency.

KHAIRUL ISLAM
Country director
WaterAid Bangladesh
Dhaka

Their bangs brought bucks



One overlooked factor in Puerto Rico's decline over the past decade (“After the hurricane”, April 14th) is the closure of Roosevelt Roads Naval Station in 2004. Roosevelt Roads was one of the largest naval bases in the world, supporting 17,000 personnel and pumping hundreds of millions of dollars a year into the local economy. Home to the Southern Area Command it was an economic and political power house. It also annoyed those who were bent on getting American armed forces to leave the island. An errant shell killed a civilian guard, igniting a social uproar that led to the base's closure. But the

navy's eviction has contributed greatly to Puerto Rico's general economic atrophy.

WILLIAM GEMBUS
Fort Lauderdale

I am a former chief executive of a power utility and visited Puerto Rico last month. Despite a co-ordinated effort from the federal government and the American army to restore electricity, the underlying infrastructure, subjected to decades of theft, incompetence and cronyism, was barely functioning. The power system is so fragile that the slightest weather or procedural hiccup causes blackouts.

A group of experts, led by the New York Power Authority, has offered suggestions to make the system more reliable. Microgrids, hardened distribution sites and improved transmission lines are all on the drawing board, but there are not enough funds to complete it all. Privatisation, if a buyer can be found, will help, but it won't be easy.

Puerto Rico, like other non-voting territories of the United States, is at the end of the line when it comes to assistance. Only when the Puerto Rican people themselves decide that they have had enough and implement change will they be able to improve their own lot.

STEVE WALSH
Fredericksburg, Virginia

Thailand is not sclerotic

I disagree with your argument that Thailand is destined to meet the same fate as Japan (“A new shade”, April 7th). Thailand's population is ageing, but, unlike Japan, the country imports lots of foreign labour. As well as taking in millions of migrants from Laos, Myanmar and Cambodia, it is an attractive destination for skilled foreign workers.

Contrary to your contention, there is room to be hopeful for Thailand's prospects. The government has set optimistic infrastructure objectives, especially relating to energy. It is ahead of targets to increase solar and wind capacity. Big public-private

partnership projects have been announced, or are in the pipeline, in port infrastructure, toll roads, high-speed rail, LNG terminals and public transport. To put it mildly, the Thai government is gearing up for massive infrastructure development and the private sector is eager to take part.

DAVID BECKSTEAD
Consultant
Tilleke & Gibbins
Bangkok

She can write

Your review of Madeleine Albright's “Fascism: A Warning” commented that the author's “way with words is a happy surprise” (“March of the times”, April 14th). Your reviewer must not have read “Prague Winter”, Mrs Albright's memoir of childhood, adolescence and double exile, first by the Nazis and then by the Communists, from her native Czechoslovakia. It is one of the most engaging memoirs of any politician on either side of the Atlantic.

TERRY PHILPOT
Limpfield Chart, Surrey

Corporate haze

We should find ways to replace the elaborate gobbledygook used to describe tech companies (“Grabbing back”, March 31st). Computers can make work more efficient, but they do not fundamentally alter the nature of the work itself.

Accountants did not stop being accountants when they started using PCs. In the same way it is irrelevant if one taps an app to call a taxi, or whether a catalogue exists in paper or digital form. What is wrong with “Uber, a taxi firm”, “Amazon, a mail-order company” and “Facebook and Google, two media groups”?

THOMAS LINGSINGER
Geel, Belgium ■

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Thinking outside the box

COPENHAGEN, ROTTERDAM AND SINGAPORE

Digitisation will not just transform how goods are moved around the world, but also how the world shops

THE *Munich Maersk*, which entered service in June 2017, is a testament to the technological marriage of information and transportation. Its bridge looks like a very spacious cockpit. Packed with computer screens, it is all glass, no brass—with a wheel that looks more like a pilot's control column. Sailing her 214,000 tonnes from port to port takes a crew of just 28. Loading and unloading the 20,000 containers she carries only needs the supervision of one crew member.

The *Munich Maersk*, though, is a high-end exception—one of the best ships in the up-to-the-minute fleet of the biggest shipping company in the world. It shows what can be done. But at the moment the industry's big issue is what is being left undone.

Between 1985 and 2007 trade volumes rose at around twice the rate of global GDP. In the 1990s the world's largest container ships only had space for 5,000 or so containers; now it boasts giants like the *Munich Maersk*. The global logistics industry had revenues of \$4.3trn (€3.3trn) in 2014, according to BCG, a consultancy.

But though the flows and the pipes have got bigger, the principles of the industry's plumbing have changed little since they took their modern form in the 1950s and 1960s. Use containers of standard sizes that can be loaded onto trains, lorries or

ships as needed; use scale to cut costs; coordinate the whole thing with a physical paper trail. When in doubt, buy something bigger.

The economic slowdown following the global financial crisis hit this way of doing things hard. Although giants like Maersk continued to buy enormous ships, smaller lines with worse balance-sheets could not. Airbus, which had hoped to sell a freighter version of its A380 superjumbo, abandoned its plans. Freight rates plunged as demand for shipping did not keep up with supply. Between 2012 and 2016, the Shanghai Containerised Freight Index, a measure of prices, fell by 73%.

At the same time, the growth of e-commerce saw more aware, more demanding corporate customers insist on ever better handling of what is called logistics' "last mile"—moving purchases from their distribution warehouses to the people who bought them. Though today's talk is all of delivery drones and driverless vans, the key to this transformation has been not new equipment but new ways of handling data: knowing where hundreds of millions of things are and where they are going, and being able to act on that data as things change.

Now companies that have been crucial to these changes at one end of the distribu-

tion chain—Alibaba and JD, which are Chinese, and Amazon, which is American—are eyeing the rest of it. The business of moving goods internationally from factory to factory and warehouse to warehouse requires many more capabilities than shifting items from local warehouses to doorsteps. But it also accounts for 90% of the logistics' industry's global revenue. How far the intruders can displace the incumbents and what new business models come out of the struggle will help determine how much world trade can grow and who the winners and losers from that growth will be.

Adrift in a sea of paper

Firms looking to move components through their supply chain or finished goods to retailers have two main options. Express-delivery services such as DHL Express (part of Deutsche Post DHL), FedEx and UPS are fast and flexible—all the more so now they have embraced new data-management systems. But they are also expensive—especially for long-distance air freight. Shipping a 70kg parcel from Shanghai to London with DHL Express takes three times longer, and costs four times as much, as buying a human of the same weight an airline ticket. The passenger gets a baggage allowance and free drinks, too.

So most goods wend their way across the world using the second option—containerised freight. The non-domestic cargo business has revenues of \$2.6trn a year, according to BCG. And a lot of those revenues go to middlemen. Dealing with customs clearances, insurance, transfers between sea and road and rail and all the other physical, procedural and bureaucratic



China and India

Prickly peers

DELHI

Asia's reflexively hostile giants contemplate a different sort of relationship

DRAGONS are lithe and prickly and cunning. When excited they breathe fire. Elephants are tubby, lumbering and shy. They never forget a slight, and when angered grow fierce and implacable. If the metaphorical animals typically used to depict them are anything to judge by, it is not surprising that China and India, the world's two most populous countries, tend to compete more than co-operate.

For decades each has claimed bits of the other's territory. Each nurses a long list of irritants; each dislikes the other's friends; each suspects the other is up to no good. Sometimes, as in a brief border war in 1962, India and China have clashed. At other times they have professed a fickle friendship. But most of the time the two giants just peer warily at each other over the Himalayas—which is why the two-day “informal” summit between their leaders, to be held in the Chinese city of Wuhan on April 27th-28th, marks a striking departure from the norm.

Both countries are billing the meeting between Prime Minister Narendra Modi and President Xi Jinping, which follows four years of rising tensions, as a historic chance to “reset” relations on a friendlier footing. If the optimistic words of Wang Yi, China's foreign minister, are to be believed, the Chinese dragon and Indian ele-

phant “will no longer fight with each other, but dance”.

That would be nice. The two countries are home to a third of the world's people. Both have done well economically in recent years, China spectacularly so. Its economy is now nearly five times India's, but the laggard is slowly catching up, even as its population is set to overtake China's some time in the next decade. Yet, although their mostly peaceful rivalry has lacked drama, it does carry costs, not only for the principals but for the wider region.

Instead of using its clout to help calm



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the chronic and debilitating enmity between India and Pakistan, for instance, China has chosen to sustain an “all-weather alliance” with Pakistan—including generous military, economic and diplomatic backing—as a means to apply pressure on India. And so, instead of welcoming China's ambitious Belt and Road Initiative as a source of much-needed capital and infrastructure for itself and smaller neighbours, India has kept aloof, condemning it as a sneaky Chinese scheme to entrap unsuspecting client states in debt.

Rather than profit by opening its own territory as an obvious passage between China and the West, India has instead pushed China to seek alternative routes. And so China has intruded with growing assertiveness into places that India regards as its own natural zone of influence—with aid and trade into countries such as Nepal, the Maldives, Bangladesh and Sri Lanka, and with its navy into the Indian Ocean. This, in turn, has encouraged India to bolster its position by edging away from its historical posture of non-alignment and seeking deeper defence ties with other strategic rivals to China such as America, Australia and Japan. China, obviously, finds this threatening, and so the cycle of mistrust deepens.

The summit of love

No one in Delhi or Beijing thinks that one summit meeting can resolve all this. “The changes of India's China policy are only tactical, not strategic, as India's traditional hegemonic and cold-war mentality has not changed,” sniffs Liu Zongyi, a Chinese academic, in the *Global Times*, a nationalist newspaper. “This is more like pressing a pause button than a reset.” ▶▶