

The Economist

North Korea wants to talk

Russian spies and the assassin's creed

Warren Buffett loses his touch

TECHNOLOGY QUARTERLY: The ocean

MARCH 10TH-16TH 2018

The threat to world trade



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



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Politics



Italy's general election resulted in a badly hung parliament, with none of the three main political groupings close to a majority. Populist parties did better than expected, winning more than half the vote. Weeks of uncertainty lie ahead, though either one of the two big populist parties—the Five Star Movement and the Northern League—looks sure to end up in power.

In Germany the Social Democratic Party's membership voted to approve a new coalition government with Angela Merkel's Christian Democrats, paving the way for Mrs Merkel to start her fourth term as chancellor later this month.

British police said a nerve agent had been used to try to murder Sergei Skripal, a former Russian spy, and his daughter. Mr Skripal had been jailed in Russia for passing secrets to British intelligence, but he was released in 2010 under a swap arrangement for the return of Russian agents. The attack is reminiscent of the fatal poisoning in London of Alexander Litvinenko in 2006, probably on the orders of the Russian government.

Time to talk?

During a meeting with South Korean envoys, Kim Jong Un, North Korea's dictator, opened the possibility of talks with America about ending his country's nuclear programme and suggested he would suspend missile tests once negotiations began. Donald Trump welcomed the "possible progress". Seasoned observers poured oceans of scepticism

over Mr Kim's remarks, wondering if it was a strategy to weaken Chinese and Russian support for sanctions.

In South Korea Ahn Hee-jung resigned as governor of the province of South Chungcheong after his secretary accused him of raping her several times. Mr Ahn had been tipped to run for president in 2022. The secretary said she was inspired by South Korea's #MeToo movement, which has played a part in the resignations of several other prominent figures.



An outbreak of violence directed at Muslims prompted the government of Sri Lanka to declare a state of emergency for the first time since the end of the country's civil war in 2009. The unrest was allegedly sparked by the killing of a Buddhist man by a group of Muslims in the city of Kandy. Communal tensions have risen over the past year, fanned by Buddhist nationalists.

Australia and East Timor ended a dispute over their maritime border that had carried on since East Timor's independence from Indonesia in 2002. They signed a treaty setting the boundaries, which opens the way for both countries to share the spoils from gasfields in the Timor Sea.

Against the backdrop of maritime territorial disputes and nervousness about America's increased focus on the Pacific, the Chinese government said it would increase defence spending by 8%, to 1.1trn yuan (\$175bn). It is the biggest rise in years, though the amount China actually spends on defence is much higher than the official figure.

China set its target for economic growth this year at 6.5%. Last year GDP grew by 6.9%.

Her day in court

Judicial authorities in Argentina said Cristina Fernández de Kirchner, a former president, would face trial on charges of covering up Iran's suspected role in the attack on a Jewish centre in Buenos Aires in 1994 that killed 85 people. Ms Fernández is not under arrest.

Brazil's supreme court said President Michel Temer's bank accounts could be scrutinised in an investigation into possible corruption involving port permits. Another court denied a petition by Luiz Inácio Lula da Silva, a former president, to be allowed to stay out of jail while he appeals against a 12-year sentence.

Venezuela's electoral authorities postponed a presidential election scheduled for April 22nd until May 20th. Most of the opposition intends to boycott the poll, believing it will be rigged by the socialist president, Nicolás Maduro.

Police in Honduras arrested a senior company executive in connection with the murder in 2016 of Berta Cáceres, an environmental activist. Roberto David Castillo Mejía was president of the hydroelectric company building the dam that Ms Cáceres was protesting against. Prosecutors say he helped plan her murder.

No let up

The regime of Bashar al-Assad in Syria stepped up its assault on rebel-held Eastern Ghouta. The bombardment has already killed hundreds of people in recent weeks. A UN convoy, stripped of medical supplies, was allowed to deliver aid to civilians, but had to cut its mission short because of shelling. A Russian military transport plane crashed near the Syrian coast, killing 39 people.

Rex Tillerson, America's secretary of state, tried to improve relations with Africa, two months after Donald Trump

reportedly used foul language to disparage African countries. Ahead of a week-long trip to the continent, Mr Tillerson promised \$533m in new aid. He also criticised China's dealings with Africa, saying it relied on "opaque contracts, predatory loan practices and corrupt deals that mire nations in debt".



Voters in Sierra Leone braved long queues to pick a new president. Ernest Bai Koroma, the incumbent, has completed his maximum two terms in office. Over a dozen candidates hope to replace him. The winner's first task will be to turn around the economy, which has yet to recover from an Ebola epidemic and a commodities slump.

His next gig

The UN secretary-general, António Guterres, appointed Michael Bloomberg as his special envoy on climate change. The former mayor of New York has a brief to chivy governments into meeting targets for reducing greenhouse-gas emissions. He already jointly oversees an effort to get American cities, states and businesses to reduce their emissions in line with the Paris accord on climate change, which America is in the process of withdrawing from.

The March 5th deadline, by which time the Trump administration had wanted the Deferred Action for Childhood Arrivals programme to end, came and went. Federal courts have put those plans on hold, leaving around 800,000 of the programme's Dreamers, immigrants who came to America illegally as children under 16, in some uncertainty about their future.

Business

Donald Trump's intent to impose tariffs of 25% and 10% on steel and aluminium imports precipitated talk of a new **trade war**. China warned that it would retaliate in an "appropriate" way, but the announcement also rattled America's allies. Republicans pushed back against the idea in an open letter. Paul Ryan, the Speaker of the House of Representatives, publicly called on the White House to drop the plan. The Aluminium Association, representing 114 American companies, was also opposed, warning that tariffs could cause job losses in downstream manufacturing.

A few days after Mr Trump issued his proclamation **Gary Cohn** resigned as the president's chief economic adviser. Mr Cohn, who had been in the job since the start of the Trump administration, had strong misgivings about the tariffs.

Fortress America

The American government said it would look into potential national-security concerns over **Broadcom's** hostile takeover bid for **Qualcomm**. Based in Singapore, Broadcom has been pursuing a reluctant Qualcomm for months, offering \$142bn in what would be the tech industry's biggest-ever acquisition. This week the Committee on Foreign Investment in the United States ordered Qualcomm to postpone a shareholders' meeting to discuss the offer while it investigates the implications of transferring its chipmaking technology to an overseas rival. Broadcom went on the offensive, criticising Qualcomm's board for "secretly" requesting an official review by the committee.

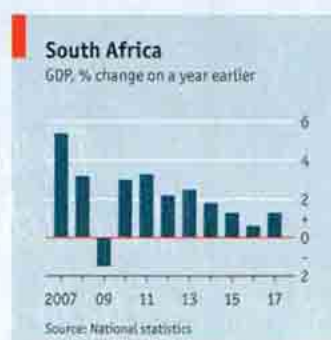
CVS Health, America's largest chain of pharmacies, issued \$40bn-worth of **bonds** across several maturities, one of the biggest sales of corporate debt to date. It is using the proceeds to fund its proposed \$69bn takeover of Aetna, a health insurer.

Renault's share price surged amid a flurry of reports that **Nissan** wanted to buy the French government's 15% stake in the carmaker, which would be a prelude to a full merger. Nissan and Renault have operated a strategic alliance since 1999. They, and the government, denied the reports.

Dieter Zetsche, the boss of **Daimler**, welcomed the recent investment by Geely, a Chinese carmaker, in his company, but said any working alliance would require the backing of BAIC, Daimler's current partner in China. Mr Zetsche also scotched press reports in Germany that Daimler had been alarmed by the speed at which Geely accumulated its 9.7% stake.

Its bricks are not clicking

Lego reported its first decline in annual profit for 13 years. In 2017 pre-tax profit fell by 18% to DKr10.2bn (\$1.7bn), despite cutting nearly a tenth of its worldwide workforce in an attempt to "reset" the business. The Danish toymaker said that last year had been "challenging" but hoped the improvement in sales in its established markets in the fourth quarter could be maintained and provide the building blocks to increase revenue in 2018.



South Africa's economy grew by 1.3% last year, helped by a better performance than had been expected at the end of the year. Rebounding from drought in 2016, the country's agriculture industry expanded by 37.5% in the fourth quarter compared with the previous three months. Trade was also buoyant. Cyril Ramaphosa's inauguration as president has raised expectations that the government will contemplate serious economic reforms.

AXA, a French insurance company, offered \$15.3bn to buy **XL Group**, which has its headquarters in Bermuda. The deal strengthens AXA's pivot towards commercial insurance and away from life insurance and savings.

Following last October's revelation that the safety-inspection records on some aluminium, copper and steel

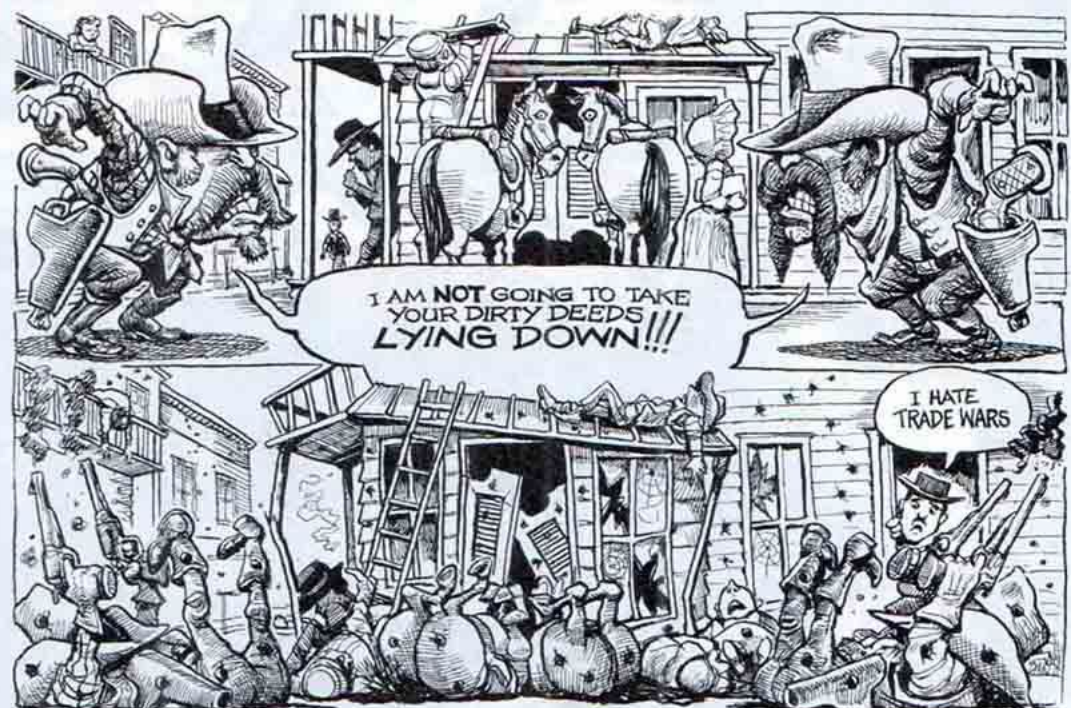
products it had shipped to customers had been forged, **Kobe Steel** purged its senior management ranks and said its chief executive would resign. The Japanese steelmaker also acknowledged that the practice of falsifying safety data stretched back 50 years.

We chat a lot

WeChat reached a new milestone of 1bn user accounts (its users often operate two accounts). Launched in 2011 by Tencent, one of China's internet giants, the Chinese social network now hosts a wide range of online services in addition to its messaging features, such as food deliveries and bank payments.

Jeff Bezos topped the *Forbes* annual list of **billionaires** for the first time with an estimated net worth of \$112bn. Mr Bezos owns 16% of Amazon, which saw its share price soar in value last year. There are now 2,208 billionaires in the world, worth \$9.1trn in total with an average net worth of \$4.1bn. Because of the decline in the value of his properties in Manhattan, Donald Trump tumbled 222 places in the ranking to 766. He is worth \$3.1bn.

For other economic data and news see Indicators section



The threat to world trade

The rules-based system is in grave danger



DONALD TRUMP is hardly the first American president to slap unilateral tariffs on imports. Every inhabitant of the Oval Office since Jimmy Carter has imposed some kind of protectionist curbs on trade, often on steel. Nor will Mr Trump's

vow to put 25% tariffs on steel and 10% on aluminium by themselves wreck the economy: they account for 2% of last year's \$2.4trn of goods imports, or 0.2% of GDP. If this were the extent of Mr Trump's protectionism, it would simply be an act of senseless self-harm. In fact, it is a potential disaster—both for America and for the world economy.

As yet it is unclear exactly what Mr Trump will do (see Briefing). But the omens are bad. Unlike his predecessors, Mr Trump is a long-standing sceptic of free trade. He has sneered at the multilateral trading system, which he sees as a bad deal for America. His administration is chaotic, and Gary Cohn's ominous decision on March 6th to resign as the president's chief economic adviser deprives the White House of a rare free-trader, signalling that it has fallen into protectionist hands. Not since its inception at the end of the second world war has the global trading system faced such danger.

Rough trade

This danger has several dimensions. One is the risk of tit-for-tat escalation. After the EU said it would retaliate with sanctions on American goods, including bourbon and Harley-Davidson motorbikes, Mr Trump threatened exports of European cars.

The second danger springs from Mr Trump's rationale. The tariffs are based on a little-used law that lets a president protect industry on grounds of national security. That excuse is self-evidently spurious. Most of America's imports of steel come from Canada, the European Union, Mexico and South Korea, America's allies. Canada and Mexico look set to be temporarily excluded—but only because Mr Trump wants leverage in his renegotiation of the North American Free-Trade Agreement, which has nothing to do with national security. Mr Trump is setting a precedent that other countries are sure to exploit to protect their own producers, just as spuriously.

It is not clear whether other countries can respond legally when national security is invoked in this way. This puts the World Trade Organisation (WTO) into a rat trap. Either Mr Trump will provoke a free-for-all of recrimination and retaliation that the WTO's courts cannot adjudicate, or the courts will second-guess America's national-security needs, in which case Mr Trump may storm out of the organisation altogether.

Mr Trump has lobbed his grenade as the WTO is already under strain. The collapse of the Doha round of trade talks in 2015, after 14 fruitless years, put needed reforms on hold indefinitely. Disputes that might have been swept into a new trade round have fallen to the WTO's dispute-resolution machinery, which is too slow and too frail to carry the burden. The WTO has not kept pace with economic change. Investment is increasingly tied up in intangibles, such as patents and copyright, rather

than physical assets, such as steel mills. Rules drafted for rich, market-led economies cannot always police state capitalism. The implicit subsidies China gives its producers were a cause of global gluts in industrial metals. No wonder that the world's second-biggest economy has been the focus of so much anger.

Whatever the WTO's problems, it would be a tragedy to undermine it. If America pursues a mercantilist trade policy in defiance of the global trading system, other countries are bound to follow. That might not lead to an immediate collapse of the WTO, but it would gradually erode one of the foundations of the globalised economy.

Everyone would suffer. Mr Trump seems to think trade is a zero-sum affair, in which a deficit is a sign of a bad deal. But the vast improvement in living standards after the second world war went hand in hand with a rapid expansion in world trade over eight trade rounds, each of which lowered barriers. Imports are in fact welcome, because they benefit consumers and spur producers to specialise in what they do best.

Without the WTO, cross-border trade would continue—it is unstoppable—but the lack of norms and procedures would leave disputes to escalate. The fewer the rules, the more scope for mercantilist mischief and backsliding. Trade policy could be captured by special interests. Military power would hold greater sway in trade disputes than economic fair play. Transnational investment could drain away. As a vast continental economy, America would lose less from this than other countries. It would nonetheless lose a lot, including a pillar of the system that has underpinned its post-war political influence.

How should the world get out of this bind? Even as Mr Trump behaves with astonishing irresponsibility, others must keep their heads. Some may impose limited retaliation—that, after all, is how to treat bullies, and the threat to local manufactures will strengthen the hand of Republicans pressing Mr Trump to relent. But such action must be proportionate and limited. A tit-for-tat war with America would be disastrous.

Back to basics

The more important task is to shore up support for trade. It would be comforting to think there is global backing to fix the WTO. But just now, there is not. The only new trade deals on offer are regional, such as the Trans-Pacific Partnership (TPP), an 11-country pact signed this week that sets out to be a blueprint for trade modernisation. Although Mr Trump abandoned it, he has hinted he may reconsider, which would be a start.

The best way to help the WTO would be for its other members to co-ordinate any action, including bringing in a WTO complaint about Mr Trump's tariffs. Even though that may burden the WTO's court, it would be a vote of confidence in the idea that the global economy should be governed by rules.

The world is a long way from the 1930s, thank goodness. Yet ignorance and complacency have put the trading system in grave danger. Free-traders need to recognise that the WTO can help keep markets open in the face of protectionist lobbying, at home and abroad. It is vital they make the intellectual case for rules-based trade. That will not be easy. For the first time in decades, their biggest foe is the man in the Oval Office. ■