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1, The genius of Amazon

<https://www.economist.com/leaders/2020/06/18/the-pandemic-has-shown-that-amazon-is-essential-but-vulnerable?frsc=dgle>

2. The new world disorder

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1. The genius of Amazon

The pandemic has shown that Amazon is essential—but vulnerable

Jeff Bezos's vision of a world shopping online is coming true faster than ever. But the job of running Amazon hasn't got any easier

Leaders Jun 18th 2020 edition

In the summer of 1995 Jeff Bezos was a skinny obsessive working in a basement alongside his wife, packing paperbacks into boxes. Today, 25 years on, he is perhaps the 21st century's most important tycoon: a muscle-ripped divorcee who finances space missions and newspapers for fun, and who receives adulation from Warren Buffett and abuse from Donald Trump. Amazon, his firm, is no longer just a bookseller but a digital conglomerate worth \$1.3trn that consumers love, politicians love to hate, and investors and rivals have learned never to bet against. Now the pandemic has fuelled a digital surge that shows how important Amazon is to ordinary life in America and Europe, because of its crucial role in e-commerce, logistics and cloud computing (see [article](#)). In response to the crisis, Mr Bezos has put aside his side-hustles and returned to day-to-day management. Superficially it could not be a better time, but the world's fourth-most-valuable firm faces problems: a fraying social contract, financial bloating and re-energised competition.

2. The digital surge began with online “pantry-loading” as consumers bulk-ordered toilet rolls and pasta. Amazon’s first-quarter sales rose by 26% year on year. When stimulus cheques arrived in mid-April Americans let rip on a broader range of goods. Two rivals, eBay and Costco, say online activity accelerated in May. There has been a scramble to meet demand, with Mr Bezos doing daily inventory checks once again. Amazon has hired 175,000 staff, equipped its people with 34m gloves, and leased 12 new cargo aircraft, bringing its fleet to 82. Undergirding the e-commerce surge is an infrastructure of cloud computing and payments systems. Amazon owns a chunk of that, too, through aws, its cloud arm, which saw first-quarter sales rise by 33%.

3. One question is whether the digital surge will subside. Shops are reopening, even if customers have to pay at tills shielded by Perspex. Yet the signs are that some of the boom will last, because it has involved not just the same people doing more of the same. A new cohort has taken to shopping online. In America “silver” customers in their 60s have set up digital-payment accounts. Many physical retailers have suffered fatal damage. Dozens have defaulted or are on the brink, including J Crew and Neiman Marcus. In the past year the shares of warehousing firms, which thrive on e-commerce, have outperformed those of shopping-mall landlords by 48 percentage points.

4. All this might appear to fit the script Mr Bezos has written over the years in his letters to shareholders, which are now pored over by investors as meticulously as those of Mr Buffett. He argues that Amazon is in a perpetual virtuous circle in which it spends money to win market share and expands into adjacent industries. From books it leapt to e-commerce, then opened its cloud and logistics arms to third-party retailers, making them vast new businesses in their own right. Customers are kept loyal by perks such as Prime, a subscription service, and Alexa, a voice-assistant. By this account, the new digital surge confirms Amazon’s inexorable rise. That is the view on Wall Street, where Amazon’s shares reached an all-time high on June 17th.

5. Yet from his ranch in west Texas, Mr Bezos has to wrestle with those tricky problems. Start with the fraying social contract. Some common criticisms of Amazon are simply misguided. Unlike, say, Google in search, it is not a monopoly. Last year Amazon had a 40% share of American e-commerce and 6% of all retail sales. There is little evidence that it kills jobs. Studies of the “Amazon effect” suggest that new warehouse and delivery jobs offset the decline in shop assistants, and the firm’s minimum hourly wage of \$15 in America is above the median for the retail trade.

6. But Amazon’s strategy does imply huge creative disruption in the jobs market even as the economy reels. In addition, viral outbreaks at its warehouses have reignited fears about working conditions: 13 American state attorneys-general have voiced concern. And Amazon’s role as a digital jack-of-all-trades creates conflicts of interest. Does its platform, for example, treat third-party sellers on equal terms with its own products? Congress and the eu are investigating this. And how comfortable should other firms be about giving their sensitive data to aws given that it is part of a larger conglomerate which competes with them?

7. Amazon’s second problem is bloating. As Mr Bezos has expanded into industry after industry, his firm has gone from being asset-light to having a balance-sheet heavier than a Soviet tractor factory. Today it has \$104bn of plant, including leased assets, not far off the \$119bn of its old-economy rival, Walmart. As a result, returns excluding aws are puny and the pandemic is squeezing margins in e-commerce further. Mr Bezos says the firm can become more than the sum of its parts by harvesting data and selling ads and

subscriptions. So far investors have taken this on trust. But the weak e-commerce margins make it harder for Amazon to spin off aws. This would get regulators off its back and liberate aws, but would deprive Amazon of the money-machine that funds everything else.

8. Mr Bezos's last worry is competition. He has long said that he watches customers, not competitors, but he must have noticed how his rivals have been energised by the pandemic. Digital sales at Walmart, Target and Costco probably doubled or more in April, year on year. Independent digital firms are thriving. If you create a stockmarket clone of Amazon lookalikes, including Shopify, Netflix and ups, it has outperformed Amazon this year. In much of the world regional competitors rule, not Amazon; among them are MercadoLibre in Latin America, Jio in India and Shopee in South-East Asia. China is dominated by Alibaba, jd.com and brash new contenders like Pinduoduo.

Imitation is the sincerest form of capitalism

9. The world's most admired business is thus left having to solve several puzzles. If Amazon raises wages to placate politicians in a populist era, it will lose its low-cost edge. If it spins off aws to please regulators, the rump will be financially fragile. And if it raises prices to satisfy shareholders its new competitors will win market share. Twenty-five years on, Mr Bezos's vision of a world that shops, watches and reads online is coming true faster than ever. But the job of running Amazon has become no easier, even if it no longer involves packing boxes..

This article appeared in the Leaders section of the print edition under the headline "The genius of Amazon"



2. Geopolitics

The new world disorder

If America pulls back from global institutions, other powers must step forward

[Leaders Jun 18th 2020 edition](#)

Seventy-five years ago in San Francisco 50 countries signed the charter that created the United Nations—they left a blank space for Poland, which became the 51st founding member a few months later. In some ways the un has exceeded expectations. Unlike the League of Nations, set up after the first world war, it has survived. Thanks largely to decolonisation, its membership has grown to 193. There has been no third world war.

2. And yet the UN is struggling, as are many of the structures, like the World Trade Organisation (WTO) and the Nuclear Non-Proliferation Treaty (npt), designed to help create order out of chaos. This system, with the UN at its apex, is beset by internal problems, by the global struggle to cope with the rise of China, and most of all by the neglect—antipathy even—of the country that was its chief architect and sponsor, the United States.

3. The threat to the global order weighs on everyone, including America. But if the United States pulls back, then everyone must step forward, and none more so than the middling powers like Japan and Germany, and the rising ones like India and Indonesia, which have all become accustomed to America doing the heavy lifting. If they hesitate, they will risk a great unravelling—much like the nightmare in the 1920s and 1930s that first impelled the allies to create the UN and its siblings.

4. The UN is bureaucratic and infuriating. Its agencies fall prey to showboating and hypocrisy, as when despots on its Human Rights Council censure Israel yet again. The Security Council gives vetoes to

Britain and France, much diminished powers since 1945, but no permanent membership to Japan, India, Brazil, Germany or any African country. Alas, it looks virtually unreformable.

5. Nonetheless, the global order is worth saving. As Dag Hammarskjöld, a celebrated secretary-general, said, the un “was not created to take mankind to heaven, but to save humanity from hell.” Our special report this week explains how the un does that essential job, as do many other multilateral institutions. Its peacekeepers protect 125m people on a budget only a bit bigger than New York City Police Department’s. It says it is helping provide life-saving assistance to 103m. For all the Security Council’s flaws, it would be missed.

6. That is because, left to themselves, countries drift into antagonism. Witness the fatal clash of Indian and Chinese forces this week over a border dispute both sides are too proud to defuse (see [article](#)). Multilateral endeavours like the un, nato and the npt cannot ensure peace, but they do make war less likely and more limited. France and its allies are helping contain the conflict spreading across the Sahel.

7. Without a multilateral effort, old problems are likely to deepen—even Syria, after nine bloody years, will one day be ready for the un envoy’s plans for peace. Meanwhile new problems are more likely to go unsolved. The pandemic is an example. The virus not only calls for global solutions, like treatments and vaccines, but it also aggravates local insecurity (see [article](#)). It is the same with climate change and organised crime.

8. Protecting the system from the forces of disorder is easier said than done. One threat is antagonism between America and China, which could create gridlock in global bodies, exacerbated by competing parallel financial and security arrangements. Another is that America may continue its careless treatment of multilateral institutions—especially if President Donald Trump behaves as badly in a second term as a devastating new book by John Bolton, his former national security adviser, says he has in his first (see [article](#)). Mr Trump has undermined the World Health Organisation and the wto, and this month said that he would pull out a third of the American troops stationed in Germany, enfeebling nato and limiting America’s scope to project power from Europe into Africa.

9. Happily, the world has not yet reached the point of no return. For decades the middling powers have depended on America for the system’s routine maintenance. Today they need to take on more of the work themselves. France and Germany have created an alliance for multilateralism, an initiative that is open to other countries. Another idea is for nine democracies, including Japan, Germany, Australia and Canada, which together generate a third of world gdp, to form a “committee to save the world order”.

10. Although America is dominant, other countries can still get things done—with or without help from the White House. Sometimes the aim is to bind in America. After a chemical-weapons attack on Sergei Skripal, a Russian ex-spy living in Britain, Western countries’ imposition of sanctions on the Kremlin swept up America, too. The Quad is an emerging coalition between India, Australia, Japan and America, which are all alarmed at Chinese expansion, including in the South China Sea (see [article](#)).

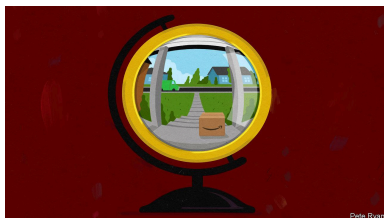
11. Sometimes, however, the world must work without America even if that is second-best. After Mr Trump walked away from the Trans-Pacific Partnership, a huge trade deal, the other members went ahead on their own. Stymied at the wto, countries are instead forming regional and bilateral trade arrangements, such as one between Japan and the European Union and another between 28 countries in Africa.

12. Defending the international order is necessary, too. China's stature is growing along with its contributions—it now pays 12% of the UN budget compared with 1% in 2000. Its diplomats head four of the UN's 15 specialised agencies, and America just one. If other countries do not act, the system will come to reflect China's expansive views of national sovereignty and resistance to intervention, even in the face of gross human-rights violations.

13. Some think the job of middling powers is triage, to keep the system going until America returns to the party under a different president. It is more than that. Although polls suggest that most Americans would like to play a bigger global role, there is no going back to the "unipolar moment" after the Soviet collapse, when America ran the show single-handed. Not only did that provoke a backlash abroad, exploited by Russia and China, but it also stirred up resentment at home.

14. At the time, President Barack Obama responded by asking like-minded countries to help America make the world safe. They shrugged. They must not make the same mistake again. .

This article appeared in the Leaders section of the print edition under the headline "The new world disorder"



And on the second day...

Can Amazon keep growing like a youthful startup?

Investors certainly seem to think so

Briefing Jun 18th 2020 edition

Next month Amazon will turn 9,500 days old. But for Jeff Bezos, the company's founder and chief executive, it is always "Day 1". Amazon, he has insisted since its founding in 1994, must forever behave like a feisty startup: innovate aggressively and expand relentlessly.

2. Adherence to this rule has made Amazon as convenient to consumers as it is feared by businesses which stand in its way. Today roughly \$11,000-worth of goods change hands on Amazon's e-commerce platform every second. The company delivered 3.5bn packages last year, one for every two human beings on Earth. Amazon Web Services (aws), its cloud-computing division, enables more than 100m people to make Zoom calls during the day and a similar number to watch Netflix at night. In all, Amazon generated \$280bn in revenues last year.

3. This year Amazon has become not just convenient, but essential. The smiling brown package left at the threshold as the neon-vested delivery worker backs swiftly away has become the hallmark of the locked-down pandemic. Shopless and officeless life would be unimaginable without deliveries and cloud-based work—and insufferable without distractions like video-streaming. Investors see this as an acceleration of a long-term trend towards life online from which the world will not turn back. "The explosive demand created by covid-19 catapults Amazon straight into 2025," says Michael Moritz of Sequoia Capital, a venture-capital firm.

4. Amazon's market capitalisation doubled to \$734bn between 2016 and 2018. Since then it has close to doubled again. Its shares trade at 118 times earnings, compared with 25-35 times for Apple and Microsoft, the other members of the trillion-dollar-company club. Up and down Wall Street, brokers tell clients to hold Amazon shares if they have them, or buy them if they don't.

5. But Amazon is not without problems. Rivals have emerged in both e-commerce and the cloud. Questions are being raised about its treatment of workers and independent merchants on its platform. Politicians in many capitals would like to see it broken up. So would some investors, on the basis that they would see higher returns that way. "Day 2", which Mr Bezos characterises as "Stasis. Followed by irrelevance. Followed by excruciating, painful decline", has not yet dawned. But it is well past noon on Day 1.

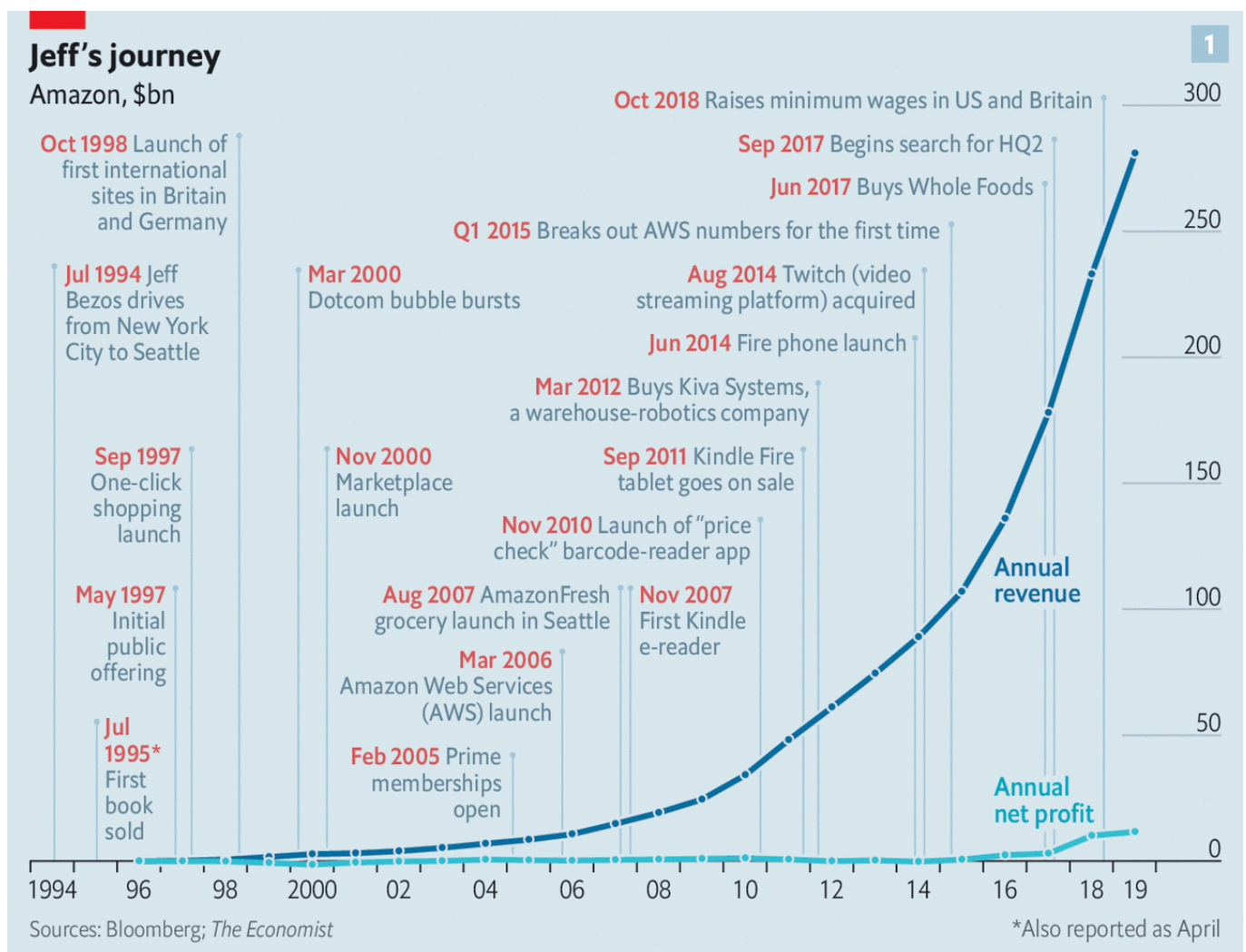
Prime position

6. No firm bestrides the physical and digital worlds in the way Amazon does. In the physical world, it has a logistics system second to none. The 150m customers who subscribe to its Prime service get all their purchases delivered promptly—as well as perks like free streaming of videos and films—for a flat fee, with same-day delivery in some places. The convenience leads them to shop more. The logistics system is

also used to fulfil orders for other companies. In 2018 “third-party” sales accounted for 58% of sales through the platform.

7. The scale of its retail operation gives Amazon an unparalleled collection of data on the desires and decision-making of hundreds of millions of shoppers—the sort of data that advertisers love. Amazon’s advertising revenues are now \$11bn; its 7% share of the global online-ad market is larger than any save Google’s (38%) and Facebook’s (22%).

8. In the digital world Amazon dominates the cloud-computing business. In 2003 two engineers suggested that Amazon’s in-house it infrastructure could be provided as a service to other companies, as space on its website and use of its logistics system were. That intrigued Andy Jassy, Mr Bezos’s technical adviser at the time. Today Mr Jassy is aws’s chief executive. The division has established the company’s credentials as a developer of serious technology on a very large scale, rather than just a user of it. It also provides lots of cash. Last year aws contributed \$35bn to Amazon’s sales—and a fat \$9.2bn in operating profits.



The Economist

9. The aws piggy bank has supported both expansion in retail—in 2017 Amazon paid \$14bn for Whole Foods, an upscale supermarket chain—and new projects which the company’s engineers cook up at a prodigious rate. One of the whizziest is Project Kuiper, a satellite-broadband venture; another is Haven

Healthcare, a not-for-profit aimed at reducing health-care costs, created with JPMorgan Chase, a bank, and Berkshire Hathaway, a conglomerate.

10. Amazon is still growing briskly, especially so for a set of multi-billion-dollar businesses. But growth is no longer accelerating in a day-one-ish way. Start with retail. Between 2016 and 2019 growth in global sales of goods, Amazon's own and third parties', on its websites slowed from an annual rate of 27% to 18%, calculates Sanford C. Bernstein, a broker. The effects of covid-19 might drive it back up to 23% for 2020 as a whole, but the long-term trend is not expected to change.

11. And the coronaviral sales boost has come at a cost. The company is hiring 175,000 new workers in America to cope with surging demand; it has invested heavily in covid-proofing its operations; and it has sacrificed earnings by prioritising the delivery of essential items, which tend to have lower margins, while barring many lucrative non-essentials from warehouses and removing ads for them to tamp down demand. Even as sales rose by 26% between January and March, profits fell by 29% compared with the previous year.

12. With its range narrowed and shipping slowed, Amazon could not keep up with soaring online demand (see chart 2). In America and elsewhere shoppers turned to rivals, often on a "click and collect" basis. According to data from Rakuten Intelligence, an independent subsidiary of a Japanese e-commerce firm, Amazon's share of online spending in America was 34% in mid-April, down from 42% before covid-19. For years Amazon has led the way as an e-commerce pioneer, says Mark Shmulik of Bernstein; now every big retailer will turn to the web as never before. Long-established retailers like Target and Walmart are already making hay.



The Economist

13. Big resurgent rivals are not Amazon's only competition. Shopify, a Canadian firm, offers retailers a way to sell online—and obsesses over the experience it provides to the companies which use it just as much as Amazon obsesses over its customers. It has gone from nowhere a few years ago to 5.9% of America's online-retail market, second only to Amazon. It is now to become the back-end for Facebook Shops, the social networking giant's new e-commerce venture. Taking a lead from Alibaba, China's

dominant online retailer, Facebook hopes to provide a setting where people will browse and socialise in a way that no one does on Amazon.

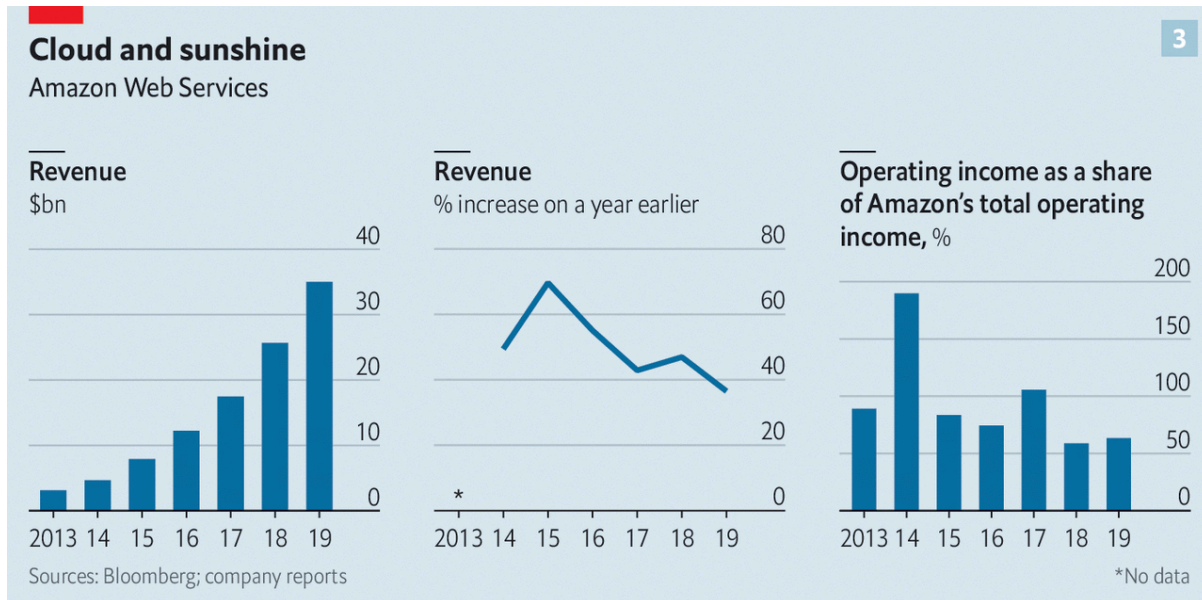
14. Amazon can no longer count on Prime to fuel prodigious growth at home; most American households that can afford the \$120 fee are already members. Future retail growth will therefore depend on markets elsewhere. These currently account for 29% of the company's total non-aws revenues. In western Europe, Amazon is entrenched and has been doing well. But an ageing, economically sluggish continent is not exactly a long-term growth and profits motor. Many of the region's consumers tend to browse online then buy offline. Meanwhile, things in emerging markets are not going to plan.

15. A year ago, after 15 years of trying, Amazon gave up on China. In 2012 it had managed to win an e-commerce market share of 7% there, but Alibaba and the other local success story, jd.com, squeezed it out, poaching customers with screaming deals and promotions. Had Amazon fought harder it might still have lost; it is possible, even likely, that the Communist Party would not long have tolerated a big American retail presence. But it does bear some blame: it failed to recruit talented locals, and made too many decisions in Seattle.

Failing to deliver

16. Elsewhere in the emerging world Amazon is still burning billions with no returns in sight. Its \$6.5bn investment in India looks troubled. The nationalist government of Narendra Modi is making life hard for foreign firms—and easier for its local champion, Reliance Jio (in which Facebook is investing \$5.7bn). In Latin America Amazon's 3% share of online retail is barely one-fifth that of MercadoLibre, an Argentine firm better at dealing with bad roads, banditry and other local pitfalls. Because profits from western Europe are not enough to offset losses in the developing world, Amazon's international division has been losing money for years.

17. Investors have mostly shrugged off Amazon's global retail slowdown. The reason is simple—aws. Its operating income usually adds up to well over half of Amazon's total—in the most recent quarter it accounted for 77%. Bernstein estimates that Amazon's retail business had an operating margin of -1% in 2019, and aws 26%. But the cloud is getting crowded. Alibaba, Google and Microsoft have expanded their cloud offerings (though Alibaba Cloud still earns almost all its revenue in China). Globally, aws's share of cloud-computing declined from 53.7% to 47.8% between 2016 and 2018, according to Gartner, a research firm, while Microsoft's nearly doubled to 15.5%. Revenue growth at aws has slowed sharply, from 49% in the second quarter of 2018, year on year, to 33% in the first quarter of 2020 (see chart 3).



The Economist

18. The aws cloud is considered superior to the others in terms of reliability and speed. Azure experiences more service outages, for example. aws also allows its customers to do more sophisticated things. But the rivals are good enough for most purposes, and improving. Large firms may prefer to deal with Microsoft because they have been dealing with it as a software provider for decades. George Gilbert of TechAlpha Partners, a consultancy, says that whereas aws offers a wide range of platform services that suit the most technology-centric customers, Microsoft concentrates on integrating its services in order to make them accessible to mainstream customers.

19. aws has the resources to defend its market-leading position. But in the cloud wars any handicap could cost it dearly. Its parent may be becoming one such drag. For years being part of Amazon was a huge advantage for aws, says Heath Terry of Goldman Sachs, a bank. It needed cash from the rest of the group, as well as technology and data. But Mr Bezos's habit of moving into new industries means that there are now ever more rivals leery of giving their data to it. Potential customers worry that buying services from aws is tantamount to paying a land-grabber to invade your ranch. Walmart has told its tech suppliers to steer clear of aws. Boards of firms in industries which Amazon may eye next have directed their departments "to avoid the use of aws where possible", according to Gartner.

20. This has fuelled talk that aws might be better off pursuing its future as a separate company. In addition to putting a healthy distance between itself and the Amazon expansion machine, aws would no longer need to cross-subsidise the firm's less lucrative ventures. The transparency that would be offered into the financials of each business by a break-up would allow fund managers a better insight into how the new firms fulfil their investing criteria. In financial markets, a separation has been expected for the past year or so, according to the head of global internet banking at a leading financial institution.

21. Mr Jassy says that aws was always designed to be separable from the rest of Amazon. If things get to the point where being inside Amazon is more disadvantage than advantage, says Mr Terry, aws could go its own way.

22. Not that aws gets nothing from being part of Amazon, however. Some data-driven technologies work better at scale. Data from Alexa, the virtual assistant Amazon makes available through its Echo smart speakers, helps feed Amazon's voice-recognition algorithms, which can then be sold as a service to aws

customers, as well as back to shoppers. More shoppers and more data mean better algorithms, and so on. Yet such benefits could easily be set aside if aws's position inside Amazon continues to give powerful rivals such as Microsoft and Google a winning sales pitch.

23. Letting go of aws would mark by far the most dramatic reorganisation in Amazon's unrelentingly accretive history. Analysts reckon the unit accounts for a third or more of Amazon's value. A plausible valuation of \$500bn would see it start out as one of America's ten most valuable firms. And despite slowing growth it is still expanding twice as fast as the retail bit. If it grew at 20-30% a year for a decade—which is more slowly than in the past—while maintaining its margins, it could turn into the world's biggest profit-generator.

The great migration

24. There is no historical precedent for a half-a-trillion-dollar firm growing that fast for that long. But the notion is not entirely outlandish. Less than 10% of the estimated \$4trn in annual global it spending has so far migrated to the cloud. Mr Jassy is not alone in arguing that “the overwhelming majority” of computing is going to end up there one day. A company focused entirely on making that happen could become vast.

25. How would Amazon fare without aws? In some ways, the change might be salutary: some close to Amazon feel that it has grown too big. Elements of unproductive bureaucracy and politicking are creeping in, they report. A lot of high-level Amazon meetings these days are about lobbying for promotion rather than innovation or operational excellence, says a former executive. A slimmed-down and refocused company might be on a better footing.

26. It would, though, also be one with much less cash to back its further growth. As well as helping pay for the purchase of Whole Foods, aws money has paid for international expansion and heavy investment in “last-mile” delivery, among other things. If the e-commerce rump were to inherit a hefty chunk of the company's \$59bn cash pile it might be able to keep spending—but not for long, at its recent rates. An Amazon without aws “might not be one I would want to own”, says a representative of a big institutional shareholder in Amazon.



27. Mr Bezos's views on a break-up are unknown (he declined to be interviewed for this article). He may believe that aws and the rest of the group are symbiotic and would both suffer if separated. Even if he does not, though, it is a fair bet that he would be reluctant to let go of a cash-cow that enables Amazon to pursue new ventures. In time, the ad business might grow to fill that role. Last year it boasted an

operating margin of 49%, and it is standing up to the current collapse of the advertising market better than its larger online rivals. But it is still small compared with aws.

28. Whatever Mr Bezos's views are, though, they will not be the final word that once they would have been. For a few years Seattle tech insiders have reckoned that Mr Bezos has been preparing to give up the top job to become executive chairman. He has already shed some of the management burden. In 2016, when Mr Jassy became chief executive of aws, he named Jeff Wilke as "chief executive worldwide consumer".

29. Though the pandemic has now brought Mr Bezos back into day-to-day involvement in the e-commerce operation, in recent years he has mostly confined himself to new projects such as Amazon Go, a till-less supermarket, and, earlier, Alexa. He has also been devoting a fifth of his working week to Blue Origin, his private rocket company, which is currently working on satellite launchers to compete with those of SpaceX and a Moon lander for nasa.

30. There is also the matter of his private life. In January last year Mr Bezos tweeted a bombshell: he and his wife, MacKenzie, were getting divorced. Days later the *National Enquirer* published details of an extramarital affair. The news shook the tight group of executives who run the company alongside him. Amazon's meritocratic culture depends on "truth-seeking", says a former senior executive. But it only works "if people at the top behave accordingly", he adds. "Jeff's episode put a dent in the company's values." Investors, for their part, fretted that Mr Bezos's eventful personal life had become a distraction.

31. If Amazon fissions, Mr Jassy and Mr Wilke will be the obvious candidates to run the two firms—if, that is, one or other of them does not leave before then (they are both high on every recruiter's wish list). Mr Bezos might stay on to oversee both companies as executive chairman. Amazon's board will want to hang on to his magic touch for as long as possible, says a headhunter who knows the firm well.

32. But over time his influence may dwindle. He remains the company's biggest shareholder—and thus the richest man in the world. His divorce settlement cut his economic stake from 16% to 12% (though he kept the voting rights of the portion he gave up). Still, every year he sells a slug of stock to fund Blue Origin, so in some years' time he may come to own less than a tenth of his creation. Excluding the big three passive fund managers, the four largest institutional investors in Amazon already control 10% of the stock. And unlike many technology firms, Amazon has no dual-class shares that would let Mr Bezos control the board regardless of the size of his stake.

33. There might be other attractions to new leadership. While on Wall Street and in Seattle investors and insiders talk of one way of splitting up the company, in Washington, dc, they talk of another. A growing chorus of politicians, accompanied by an ensemble of antitrust experts, accuse Amazon of abusing the market power its size and reach provide.

34. Elizabeth Warren, a Democratic senator and scourge of big tech, has proposed sundering Amazon's private-label business—which produces goods for sale on the site—from that of third-party sellers on its platform. The company would also have to sell Whole Foods and Zappos, an e-commerce rival it bought over a decade ago. Two Republican senators, Ted Cruz and Josh Hawley, also speak of breaking up big tech, for different reasons. Donald Trump reserves especial spite for Mr Bezos on the basis that he owns the *Washington Post*, a newspaper critical of the president.

Soul-searching in Seattle

35. Anti-Amazon feeling grew stronger in April, after the *Wall Street Journal* reported that Amazon employees used data on third-party sellers to pinch ideas for the private-label business. Amazon has launched an internal inquiry into the incident, which violated the company's own guidelines. But lawmakers who had been investigating Amazon, Alphabet (Google's parent), Facebook and Apple for antitrust violations, still threatened to subpoena Mr Bezos if he did not voluntarily appear at an upcoming hearing. (In June Amazon signalled it was ready to send Mr Bezos.) The European Commission is reportedly preparing to file formal antitrust charges against Amazon over its treatment of third-party sellers in the coming weeks.

36. In America Amazon's market share is nearly two-fifths in e-commerce, but only 6% in all of retail. The firm's low prices and high-quality service certainly do consumers no harm. But even Amazon insiders say accusations of stealing small firms' ideas are becoming harder to brush off.

37. So are criticisms with respect to Amazon's treatment of its workers, a large proportion of whom are African-American or Hispanic. During the pandemic a number of warehouse employees have been publicising safety shortcomings to activists and the media. According to a tally by an Amazon worker, there have been 1,079 coronavirus cases among American warehouse workers. Amazon has said that the firm's rates of infection and quarantine are never higher than those of the communities in which its facilities are located, and sometimes lower. In May a group of 13 state attorneys-general asked Amazon to hand over data on covid-related infections and deaths at its warehouses.

38. In May a furore erupted after Amazon fired two tech employees who worked on user-experience design, after they organised a live-stream for warehouse workers to explain their pandemic safety fears. Democratic senators have demanded more information from Amazon on the dismissals. So have a handful of shareholders.

39. The incident prompted the resignation of Tim Bray, a respected senior vice-president at aws (and co-inventor of xml, an internet data-description language). The sackings, and those of other activists at the firm, Mr Bray wrote, were evidence of a "vein of toxicity" running through Amazon's culture. A leading engineer inside Amazon's Grand Challenge team, a secretive skunk-works unit working on ambitious projects, says morale is rock-bottom. He plans to leave.

40. The risk of Amazon's labour practices inviting more regulatory scrutiny—and, possibly worse, alienating brainboxes—is not lost on investors. The firm needs to be "very, very careful", says the institutional shareholder's representative. Amazon raised workers' wages by \$2 an hour from mid-March until June 1st and allowed warehouse employees worried about infection to go on unpaid leave without the risk of being sacked. It made 150 changes to the way its warehouses function to ensure social distancing and more cleaning.

41. Still, says the shareholder rep, rather than leading by example on labour Amazon "seems to be playing catch-up". Mr Bezos, who has added \$54bn to his net worth thanks to his company's buoyant share price while low-paid warehouse workers toil through the pandemic, "needs to lean over backwards to make sure workers are properly treated", cautions a leading Silicon Valley venture capitalist.

42. The antitrust cudgel may in fact be an attempt to force Amazon to spruce up its labour track record. How far regulators are willing to go will depend on the public mood. Americans' reliance on the

company and the goodwill it has generated with consumers may help it, says an antitrust expert close to Congress. An AWS spin-off, if it occurred, might obviate the need for drastic antitrust action.

43. Mr Bezos has managed to keep Amazon from ageing beyond Day 1 for longer than most companies can dream of. But not even the best magician can stop the passage of time. One day, Day 2 will come. .

This article appeared in the Briefing section of the print edition under the headline "And on the second day..."



Elephant v dragon

How to end the perilous Indo-Chinese border spat

To avoid escalation, both sides should agree on the "Line of Actual Control"

[Leaders Jun 18th 2020 edition](#)

In the ancient Chinese game of Go, clever players ignore little battles in favour of strategic plays. Leaving local disputes unresolved means that later, when the game tightens and the enemy is off-guard, you can snatch prizes at lower cost. In the 69 years since China truly became India's neighbour by grabbing Tibet, the world's two most populous countries have played a similar game. Even as their leaders summited and trade thrived, the Asian giants left a mess of territorial disputes to fester.

2. Mostly these claims, over some 130,000 square kilometres on either side of their 3,488km-long border, have not mattered much. Despite a Chinese "lesson-teaching" invasion in 1962, rare armed skirmishes and less rare fisticuffs between patrols, the border zone has remained relatively calm. Much of it is too rugged and empty to fight over. So long as neither side shifts the status quo, what difference does it make if there are no proper markers on long stretches of border, but instead just a fuzzy "Line of Actual Control"?

3. A brutal clash on June 15th provided a loud and ugly answer (see [article](#)). Details remain sketchy. At least 20 Indian soldiers died, many after tumbling into an icy river. India says the Chinese also suffered

casualties. China says little (see [article](#)). The death toll is the worst in any clash between the two since 1967, and the first loss of life since 1975.

4. Even worse, the skirmish cannot be explained away as an isolated incident. This spring China deployed far heavier forces than usual. It has pushed them forward not at one point but at many, say Indian sources, in effect seizing as much as 60 square kilometres of land that India views as lying on its own side of the line. A particular concern is China's westward extension along the Galwan river, threatening a strategic road that runs parallel to the border and forms the main link to India's northernmost outposts. Not surprisingly, this is where the deadly clash erupted.

5. Why would China change the status quo, angering a big nuclear-armed trading partner? Because, say Indian cynics, India is distracted just now by a swelling pandemic and shrinking economy, and saddled with a government better at chest-thumping than at strengthening its army or building alliances. Nonsense, say India's critics. It is India that has changed the status quo, quietly expanding infrastructure in contested regions even as, after stripping its part of Kashmir of statehood last August, its leaders boasted of soon "regaining" other parts, including a chunk that Pakistan gave to China in 1963.

6. China may also see an interest in teaching India that, should it continue to flirt with closer ties to America, it will pay a price. To their credit, officials on both sides have avoided whipping up popular anger, stressing instead the importance of implementing an earlier deal to pull forces back. Such gentlemen's agreements have calmed tempers in previous clashes.

7. Yet whatever the efficacy of generals meeting in windblown tents, it is a reckless way to fix problems between two rising nuclear powers that are home to a third of humanity. India has previously suggested that, as a second-best to a formal agreement over where the border lies, the two sides should at least present maps showing their view of where the line of control runs in practice. China, perhaps thinking itself the more astute Go player, has always refused to do so. This allows it to claim that any Indian move is a violation of its own understanding.

8. It is time to stop playing games. China looks stronger just now but India, if pushed, will find ways to cause it pain. And the last thing the wider world needs is an escalating slugfest between a dragon and an elephant over a lofty patch of frozen earth..

This article appeared in the Leaders section of the print edition under the headline "Elephant v dragon"



Horsemen of the apocalypse

Covid-19 raises the risks of violent conflict

War and disease feed upon each other

International Jun 18th 2020 edition BUNIA AND BOGOTÁ

Bunia, a dusty city of perhaps 650,000 in Ituri, a province of eastern Congo, has long known war. Since the start of this year, rebels have burned dozens of villages to the ground and hacked hundreds of people to death with machetes. A rebel group made up of assailants from the seed-sowing Lendu tribe has launched a series of attacks on the pastoralist Hema. The government hospital in the city is overrun with patients. “We have people wounded with machetes, with gunshots, women with amputated limbs, people with fractures,” says John Katabuku, a doctor working there. “When the displaced arrive we look after them for free—they have lost everything. But it is difficult for the hospital. We really do not have the means.”

2. With war comes disease. Ituri is still recovering from an outbreak of Ebola which started in 2018 and killed 2,262 people in the region before subsiding. Now it has covid-19. Though there are just two recorded cases in the province, that is surely a woeful undercount. If the disease is spreading, it would not be easy to tell. Tests have to be sent 1,800km to the capital, Kinshasa. And few people can get tested. Some 22 clinics have been burned down. One man living in the nearby war-torn area of Djugu says that there is nowhere to go if you are sick—all the clinics are either ruined or occupied by rebels. The hospital in Bunia has no working ventilators and only enough space to isolate up to ten people, in the area that was previously being used for suspected Ebola patients. “We have to hospitalise two to three displaced children per bed, so you can see that we do not have infection prevention under control,” says Dr Katabuku.

3. Covid-19 has thus far taken its most serious toll on rich, peaceful countries. America, Britain, Italy, France and Spain, five of the six worst-affected, have collectively borne over half of recorded deaths from the virus worldwide. But the disease is now rippling through less stable places. What will happen as it does? There are reasons to fear not only that conflict will help the virus to spread, but also that its spread may worsen wars. The two could feed upon each other, creating a cycle of misery it is difficult to arrest.

4. At the outset of the Peloponnesian war with Sparta, which raged from 431bc to 404bc, Athens was ravaged by a plague that swept through the city for three years, killing thousands of soldiers and a third of its inhabitants. “Such was the nature of the calamity, and heavily did it weigh on the Athenians; death raging within the city and devastation without,” recalled Thucydides, a Greek historian and general. The Spanish flu of 1918, another world-shaping pandemic, festered in the trenches and barracks of the first world war and killed more people than the conflict itself. Over 36,000 American soldiers died before ever reaching France, with 12,000 dying on troop transports. In total, more American soldiers, sailors and Marines died of flu and pneumonia than bullets and bombs.

5. Some still hope that confronted with an indiscriminate killer, human beings on all sides of a conflict would put down their guns—at least briefly—and confront the shared enemy. In March António Guterres, secretary-general of the United Nations (un), began urging a global ceasefire. Encouragingly, fighters in more than a dozen countries seemed to heed his call. The National Liberation Army (eln) in Colombia, which has been trying to “liberate” the country for a half century, declared a ceasefire on March 30th. So did the New People’s Army (npa) in the Philippines, a communist guerrilla group that has been in the field since 1969. Saudi Arabia has sought to draw down its forces in Yemen and declared a unilateral ceasefire. In Syria there were just 71 civilians killed in May, the

lowest monthly toll since the start of the civil war in 2011, according to the Britain-based Syrian Observatory for Human Rights.

6. But in many places the tranquility has proven short-lived. By the end of April, both the eln and the npa announced that they were not extending their ceasefires and would return to violence. The Philippine government argued that the npa had violated its ceasefire early on and that peace talks were pointless after the guerrillas killed two soldiers at the end of March. The Security Council, the un's cockpit of big powers, has been deadlocked by squabbling between America and China, including over weighty matters such as what to call the virus. Political violence has risen in 43 countries and remained steady in 45 since the start of the pandemic, according to data collected by the Armed Conflict Location & Event Data Project (acled). Some of the largest increases were in Libya, Yemen and Mali, each enmeshed in civil wars with a web of international links.

Behold a pale horse

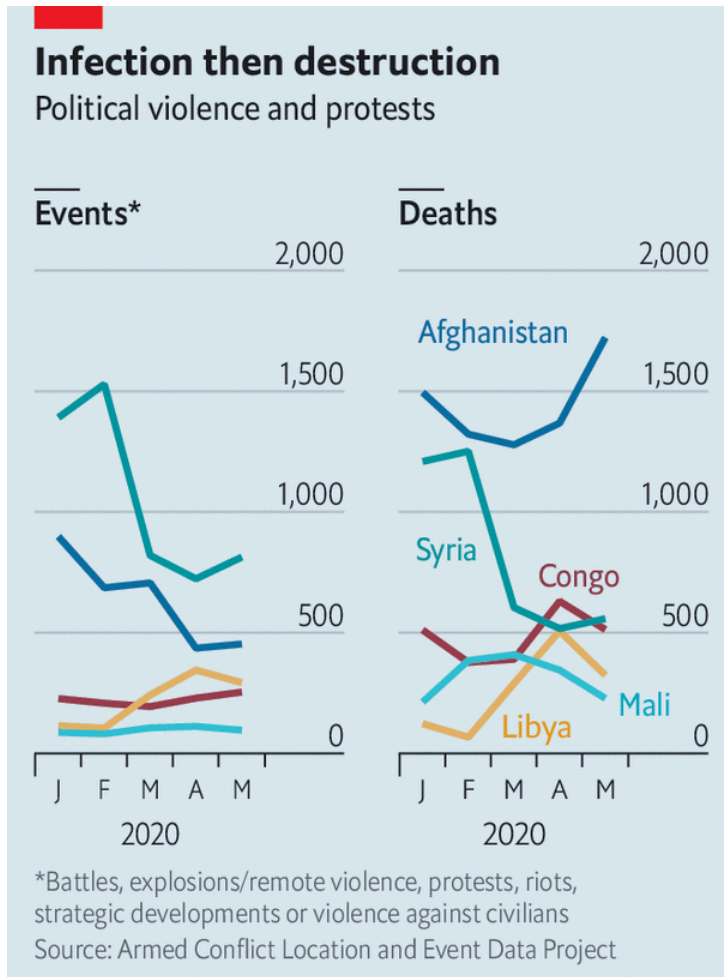
7. Battlegrounds are easy pickings for the virus. But they also help it spread. War displaces civilians, shifting disease from one place to another, while their immune systems are worn down by hunger, trauma and ill health. Trust in government tumbles, making it harder to enforce social distancing or deliver vaccinations. And those who normally provide succour are driven away. un humanitarian agencies have already cut staff in places like Yemen and placed limits on where their staff can travel, notes Robert Malley, the president of the International Crisis Group, a research outfit.

8. In Congo, some 480,000 people have fled their homes since violence escalated in late March. This number accounts for 75% of the total number of people displaced worldwide during the pandemic. Near Bunia, over 27,000 displaced people live in rows of white tarpaulin tents in a camp. Twenty-nine-year-old Charlotte Tabu sleeps in a tent that she shares with nine others. She fled when rebels attacked her village. "The rebels burned my house while I was working in the fields," she says. "We are suffering here. It is not easy to find food in the camp. We need this war to end. I had seven children, two were burned inside my house."



9. Health workers worry about the spread of the virus through and among such wretched communities. In Cox's Bazar in Bangladesh, for instance, 900,000 Rohingya Muslims, driven out of Myanmar, live in packed camps. In a survey conducted from April 11th to 17th, researchers at Yale found that 25% of respondents in camps had experienced at least one common covid-19 symptom. Most had attended a communal prayer in the previous week, a setting in which transmission is especially likely. Several refugees have already died.

10. Those with the guns—governments and rebel groups alike—are exploiting opportunities created by the virus and its shock to economic and social life. Since March Islamic State has switched its focus from intimidating civilians to attacking government and government-backed forces in Iraq and Syria. It killed more than 30 Syrians soldiers in two days of fighting in April and briefly seized a small town, Mubarak, in Diyala province north-east of Baghdad. In early May it launched its biggest attack in Iraq since the coalition declared its defeat in 2017, killing ten fighters from Hashad al-Shaabi, a mostly Shia militia.



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11. In Colombia, the Simon Bolivar bridge on the border with Venezuela has closed. That means that many of the 35,000 Venezuelans who crossed on an average day are now being forced to use illegal crossing points controlled by armed groups. Authorities in Colombia fret that this flow of untested people might unleash a health disaster. It also gives rebels a fresh source of recruits among desperate Venezuelans.

12. That is one of many ways in which Colombia's armed groups have consolidated their position. Many have jumped at the opportunity to expand their control and build something resembling legitimacy by imposing cordons sanitaires and lockdown. In parts of Nariño, in southwestern Colombia, the Oliver Sinisterra, a "dissident" group descended from farc, a guerrilla organisation that is now a political party, threatened to "sanction"—in practice, attack—any shop found open or any pharmacy with too many customers inside. In Bolivar, in northern Colombia, the eln has said only bakeries, food stores and pharmacies may open. In Arauca, on Colombia's border with Venezuela, the eln has even offered to educate the children of farmers, while schools are closed. Such indoctrination could breed another generation of rebels.

13. The crisis has also made it easier for the government to target insurgent groups and their illegal coca crop. Because road traffic has plummeted and the army has been put in charge of supplying towns and cities with food, illicit vehicles heading to rebel hideouts stick out like lines of powder cocaine on a mirror. That has enabled the armed forces to mount a string of attacks in Cauca, on the Pacific coast. The

government is also eradicating coca in areas which they previously avoided, because farmers, who would otherwise offer vigorous resistance, are safely locked down.

14. Armies and navies are also fertile ground for contagion. Troops are packed into barracks; sailors, into cramped ships. Men in uniform gather in large numbers for drills and exercises. They cross oceans and borders. Marauding land armies are rarer than they once were, but many war zones pull in spooks, soldiers and insurgents across borders. In Iran, one of the worst-hit countries in the Middle East with nearly 9,000 deaths, Mahan Air, an airline affiliated with Iran's Islamic Revolutionary Guard Corps (irgc), continued to operate between China and Iran for weeks after other airlines had suspended flights. Several commanders contracted the virus. The movement of irgc-financed Shia fighters between Iran, Iraq, Syria, Lebanon, Pakistan and Afghanistan also spread the disease. Syria's first documented cases occurred in Saida Zeinab, a Shia shrine near Damascus under the control of irgc-backed armed groups.

15. Rich countries' armies are affected too—in ways that may have lasting consequences. In America over 8,000 military personnel have tested positive for covid-19, with three deaths (the case fatality rate for those with military ties is 0.3%, considerably lower than the rate for the broader public, perhaps because soldiers tend to be young and fit). Foreign governments have sharply cut ground forces and military trainers, including most of Iraq's 29 coalition partners pursuing Islamic State (is). In March America withdrew from six bases in Iraq and nato suspended its training programme. Defender-20, a military exercise slated to be the largest movement of American troops to Europe since the cold war, was halted, not long after a Polish general involved in its planning was taken ill. At the same time, America's armed forces, like many others, have been tied up on the home front, to support beleaguered civilian authorities with everything from logistics to testing.

16. The most dramatic impact, however, has been on navies, whose confined spaces are ripe for disease. "It is a Petri dish of virus," says one former commander of an American carrier strike group. "There is no social distancing of 5,000 people on a vehicle that's three football pitches long...and one football pitch wide." America's navy comprises a quarter of the country's military personnel but a third of all cases among them. The *uss Theodore Roosevelt*, one of America's largest carriers, was forced to halt operations in the Pacific and return to port in Guam in March after an outbreak of covid-19 that eventually infected 1,000 of its crew, out of 5,000 or so in total, including its captain. It limped back to sea only at the end of May. France's sole aircraft-carrier, the more diminutive *Charles de Gaulle*, was also taken out by covid-19, with two-thirds of its crew infected (though only half were symptomatic).

17. Many countries are anxious that such self-evident disruption to their armed forces reeks of vulnerability. On May 6th the un's Mr Guterres warned that some "may see opportunities because the attention of governments and the international community is absorbed by the health crisis". That is presumably why Thomas Modly, America's then navy secretary, rashly sacked the *Roosevelt*'s captain, who had sounded the alarm about conditions on the ship. In a speech to the *Roosevelt*'s ailing crew, Mr Modly told them to "stand strong as warriors, not weak like victims". The ship, he said, "has to demonstrate to the citizens back home that it has its act together, and that it is knocking down this virus, just as it would knock down the Chinese or the North Koreans or the Russians if any one of those nations were ever so stupid enough to mess with the Big Stick". (Mr Modly himself was later forced to resign for his poor judgment.)

Opening the seals

18. The urge to downplay weakness and project strength has resulted in a form of nervous muscle-flexing that Nick Childs of the International Institute for Strategic Studies, a think-tank, calls "pandemic deterrence". In mid-April China steamed its own aircraft-carrier through the Miyako Strait between Taiwan and Japan, an "opportunistic" act "almost calculated to contrast with the plight" of the stricken *Roosevelt*, notes Mr Childs. On May 22nd America's

navy pointedly noted that it had seven out of eleven carriers at sea, though it is implausible that all are fighting fit. In mid-June three were sent to the Pacific for the first time in three years (see [article](#)).

19. Covid-19 has not had the shattering effect on military power the Spanish Flu had a century ago. Modern health care is vastly better. Today's pandemic, unlike the earlier one, largely spares the young adults who fill the ranks of armed forces. But as governments have been preoccupied at home and distracted abroad, the virus has deepened geopolitical tensions—between America and China, above all—and worsened what was already a febrile international mood. “Some leaders may...see covid-19 as cover to embark on destabilising foreign adventures, whether to deflect domestic discontent or because they sense they will face little pushback amid the global health crisis,” warns the icg.



20. The line between pandemic deterrence and adventurism can be hard to draw. But some of the geopolitical manoeuvring has already taken a more violent turn. In early March, Indian troops in Ladakh, a Himalayan region abutting China, delayed their annual summer exercise after soldiers were infected by covid-19. China went ahead with its own matching drill. But the People's Liberation Army (pla) peeled away from exercises and dashed to several disputed areas on the mountainous border, where it dug in to strategic territory. India's army stumbled upon them at the end of April, prompting it to rush forces to the disputed area.

21. The entanglement of virus and war was encapsulated in a series of videos and photographs showing pla troops in the aftermath of a brawl in May, wearing masks as they leant over trussed and bloodied Indian captives, mindful of good respiratory hygiene even during a skirmish between nuclear-armed rivals. Another fight erupted on June 15th, resulting in serious casualties on both sides (see [article](#)). “A section of the Chinese leadership believes that the...pandemic is a window of opportunity for China to expand its regional and global influence,” reflected Shyam Saran, India's former top diplomat, in May. “China stabbed us in the back,” complained an Indian officer to News18, a television channel. “In the middle of a pandemic, this was not expected.”.

This article appeared in the International section of the print edition under the headline "Horsemen of the apocalypse"



Death valley

India and China have their first deadly clashes in 45 years

Bloodshed on the border marks a turning point in relations between Asia's giants

[Asia Jun 18th 2020 edition](#)

The two armies each had machineguns, artillery and tanks to the rear. But they wielded only sticks and stones at the front, as night fell on June 15th. That was deadly enough. When the brawl ended, and the last rocks had been thrown, at least 20 Indian troops lay dead or dying in the picturesque Galwan valley, high in the mountains of Ladakh. Chinese casualties are unknown. These were the first combat deaths on the border between India and China in 45 years, ending an era in which Asia's two largest powers had managed their differences without bloodshed.

2. The Indian and Chinese armies had been locked in a stand-off at three sites along their disputed border, known as the Line of Actual Control (lac), since May. China's People's Liberation Army (pla) grabbed 40 to 60 square kilometres of territory that India considers to be its own, estimates Lieut-General H.S. Panag, a former head of the Indian army's northern command, including areas it had never previously contested. Both sides moved thousands of troops and heavy weapons towards the border, and brawls erupted twice in May.

3. India's government played down the crisis, eager to avoid giving the impression that it had been caught napping—and mindful that a nationalist backlash would make it harder to defuse the situation. On June 6th both sides agreed to “disengage” at two of the three sites, including the Galwan valley. Talks had been “very fruitful”, enthused General M.M. Naravane, India's army chief, on June 13th.

4. Not fruitful enough, it would seem. According to Indian press accounts, an argument developed after an Indian patrol tried to dislodge a Chinese position on the south bank of the Galwan river, an area that was supposed to be a buffer zone. China says that India “twice crossed the border line for illegal activities and provoked and attacked Chinese personnel”. On June 15th the pla launched what India called a

“premeditated and planned” attack with rocks and nail-studded clubs, during which Indian troops fell and were pushed down a steep slope into the river below. Some were beaten to death; others died of hypothermia.

5. China’s state-run media largely ignored the clashes and the PLA did not give details of its casualties, though Narendra Modi, India’s prime minister, said on June 17th that “our soldiers died having battled and killed the enemy.” India acknowledges that over 20 of its own soldiers lost their lives, with others thought to be missing. But despite Mr Modi’s threat of a “befitting reply if antagonised”, neither side seems keen to escalate matters. On the same day, both countries agreed to press ahead with their earlier disengagement agreement.

6. The immediate cause of the current crisis seems to have been India’s build-up of infrastructure in eastern Ladakh, including a key north-south road, making it easier to move troops and redressing China’s advantage in logistics. “What we’re seeing right now is the friction of both sides adjusting to a more capable and more resolved Indian approach to the lac,” says Rohan Mukherjee of Yale-nus College. But the two countries have also been carried to this point by wider geopolitical currents.

7. Though India and China have been rivals for a half-century—the PLA thumped India’s army in a brief border war in 1962—their rivalry has grown more intense over the past decade. The border has turned stormier, with a 73-day stand-off occurring on the edge of Bhutan in 2017. India is anxious about China’s growing economic and political clout on India’s periphery—in Pakistan, Nepal, Bhutan, Bangladesh and Sri Lanka—and about the influx of Chinese warships into the Indian Ocean.

8. In response, successive Indian governments have tilted closer to America, with which India signed a \$3.5bn arms deal in February, and China’s rivals in Asia, such as Vietnam. A quartet of China-sceptic countries known as the “Quad”, comprising America, Australia, India and Japan, now meet regularly. Though India is at pains to stress that the Quad is not an alliance, Australia may soon join naval exercises involving the other three countries.

9. The violent turn in the border dispute is likely to accelerate these trends. “We are at a worrisome and extremely serious turning-point in our relations with China,” says Nirupama Rao, a former head of India’s diplomatic service and ambassador to China. She notes a “clear asymmetry of power” between the two countries. India is likely to deepen its relationship with America and increase its defence budget, says Mr Mukherjee. As both sides shift resources to the border, “there will be a period of adjustment in which things may be especially heated,” he says.

10. On June 17th India was elected to a two-year term as a non-permanent member of the UN Security Council. Yet it now has its hands full on its own borders. On June 12th an Indian citizen was killed by Nepalese border guards, amid a separate border row between India and Nepal. Relations with Pakistan are also fraught. An Indian soldier was killed by Pakistani shellfire in Kashmir on June 14th and, the next day, two Indian officials in Pakistan were allegedly abducted and tortured by “Pakistani agencies”. And then more soldiers were sent tumbling to their deaths by China’s troops. .

This article appeared in the Asia section of the print edition under the headline "Death valley"



Chaguan

Why China bullies

It sees a world distracted by covid-19, and too economically weak to hold it back

China Jun 18th 2020 edition

China is often called a country in thrall to nationalism. The reality is more complex than that, and more cynical. For proof, look at the remarkable calm (so far, at least) that has reigned since June 15th, when Chinese and Indian troops fought their deadliest border skirmish in almost half a century. On a sweltering afternoon in Beijing, nearly three days after that Himalayan clash, a couple of bored-looking police were the only sign of extra security around India's embassy.

China's state-run media had by then issued terse reports of a violent border incident. Lots of internet users reposted news items about dead Indian soldiers. There was only limited grumbling about the failure of official Chinese sources to reveal details of casualties suffered by the Chinese army. Indeed, some netizens treated the story as a joke, mocking India's soldiers as feeble.

Compare that muted response with the rage provoked last October by the manager of an American basketball team, Daryl Morey of the Houston Rockets, when he retweeted the slogan: "Fight for freedom, stand with Hong Kong", in support of anti-government protests in that territory. Millions of Chinese demanded Mr Morey's sacking. Within two days Chinese broadcasters announced that they would not show Rockets games.

Chinese nationalism is often compared to a tiger which Communist Party bosses have fed for years—and which they are now condemned to ride, for fear of being eaten if they dismount. In reality, popular nationalism resembles a deep, man-made reservoir, created by the damming-up and channelling of long-existing forces. Most of the time, Chinese leaders can restrain or unleash public rage at will. Only in the biggest crises do they feel constrained to open the floodgates to ease dangerous pressure.

Public grievances are especially strong when America, Japan or other much-condemned countries are involved. Chaguan was a reporter in Beijing in May 1999 when nato warplanes bombed China's embassy in Belgrade, killing three journalists. Chinese leaders dismissed American promises that this was an accident, and for four days let students hurl rocks at the American and British embassies. Violence was controlled like water from a tap. Smashing windows and diplomats' parked cars was allowed. But when youngsters tried to burn the American embassy's flag with a flaming rag on a long bamboo pole, Chaguan watched paramilitary police beat them back. "Traitors!" howled the crowd.

Often dismissed by Chinese as poor and chaotic, India is not in the rogue's gallery of imperialist bullies that China's young learn about at school. Vitally, two-way trade with India is rather modest: 11 countries are larger trade partners for China. All those factors leave Chinese rulers free to downplay a crisis with India. For even when China appears reckless, it is calculating rewards and risks.

Opportunistic yes, reckless no

A revealing paper published last year by Ketian Zhang of George Mason University, in Virginia, charts how China has been throwing its weight around in its region. Titled “Cautious Bully: Reputation, Resolve and Beijing's Use of Coercion in the South China Sea”, it tests claims that China's willingness to use force is explained by its growing military strength or the assertiveness of its leaders. Actually, China used its armed forces more in 1990s, when they were weak, the paper notes. Today China prefers to use its coastguard, its maritime militia and other agencies to bully neighbours. China was rather aggressive under Hu Jintao, the country's distinctly cautious leader in 2002-12. Drawing on Chinese archives and interviews with officials, Ms Zhang offers a “cost-balancing theory” of decision-making: that China uses coercion “when the need to establish a reputation for resolve is high and the economic cost is low”. Thus China was quiet in the South China Sea in the early 2000s, when it wanted a free-trade deal with the Association of South-East Asian Nations. Later it became assertive after deciding that this group needed Chinese trade more than the other way round—and had to be deterred from seeking international help in the South China Sea. China especially likes to inflict asymmetric economic pain, as when it banned imports of bananas from the Philippines during a territorial dispute in 2012, devastating Filipino farmers but barely hurting its own consumers.

That pattern continues. Recent Chinese boycotts have targeted things like Australian beef or Houston Rockets games, but not more vital commodities. All this casts another light on China's assertiveness during this pandemic year, and the notion that China is taking advantage of a world distracted by covid-19 to throw its weight around. It is true that China has been aggressive in recent months. Beyond its readiness to skirmish on the Indian border, it has decided to impose a draconian national-security law on Hong Kong, slapped trade boycotts on Australia and other Western nations, and sent coastguard ships to sink or harass foreign vessels in the contested waters of the South China Sea. It is also true that the world is geopolitically distracted. It is hard for governments to chide China over democracy in Hong Kong, say, while also negotiating to buy Chinese ventilators. But economics matters, too.

This is a time of slumping global demand for China's goods and interrupted supply chains. Chinese officials are betting on domestic demand to drive their country's recovery from covid-19. To control the virus, the mainland's borders are closed to almost all foreigners. Chinese parents are thinking twice about sending students to universities in America, Australia and Europe. Chinese officials growl that Hong Kong-based foreign banks must support the national-security law, for they are eminently replaceable.

All in all, China feels less reliant on other countries than it has for a while. That same China is also being unusually assertive. Follow the logic through, and having limited economic ties with China may not make other countries safer. India is the latest country to be confronted with that dilemma. It will not be the last. .



Identify yourself

China's next move in the South China Sea

Is it about to claim the skies above it?

[China Jun 18th 2020 edition](#)

The last time that three American aircraft-carriers prowled the Pacific Ocean was in 2017, shortly after President Donald Trump had threatened to “totally destroy” North Korea. In mid-June a trio of carriers returned—the *uss Ronald Reagan* and *uss Theodore Roosevelt* in the Philippine Sea and *uss Nimitz* farther east. Together they brought more fighter jets than most countries in Asia possess. Chinese commentators had little doubt what the point was this time: to show China that despite covid-19, America still has muscle.

2. American officials are not so explicit about the meaning of the exercise. But they are clearly disturbed by recent Chinese moves in the South China Sea. On April 3rd China's coastguard sank a Vietnamese fishing boat near the Paracel islands (see map). On June 10th another one was rammed in the same area by a Chinese ship. In April and May Chinese coastguard vessels harassed *West Capella*, a Malaysian drillship near Borneo, prompting America and Australia to send warships. In the Spratly archipelago, China's “maritime militia”, disguised as a fishing flotilla, has been swarming near Thitu, an island controlled by the Philippines but claimed by China. America's secretary of state, Mike Pompeo, has accused China of taking advantage of distraction caused by covid-19 to engage in “provocative behaviour”.

3. Jostling in the South China Sea is nothing new. For decades, China and other littoral countries, including Brunei, Malaysia, the Philippines and Vietnam, have competed and clashed over its atolls, shoals, reefs and sandbars. China has largely emerged the victor. And despite promising America in 2015 that it would not militarise the area, it has built ports, runways and bunkers in the Spratlys and installed missiles on these island fortresses.



The Economist

4. Recently China has been tightening its grip in symbolic ways. In April it created two administrative districts covering the Spratlys and Paracels. They are under Sansha, a notional “city” that China established in 2012 as the sea’s government. It also named 80 new geographical features in the South China Sea, including 55 submerged ones. Now there is speculation that China may turn to the skies above.

5. For a decade, Chinese leaders have mulled the creation of an Air Defence Identification Zone (adiz) over the South China Sea. America was the first country to declare an adiz, in 1950. Fearing a surprise nuclear attack, it demanded that planes approaching its airspace follow various rules, such as radioing their course and destination. At least half a dozen other countries now also have such zones.

6. China established its first adiz in 2013 over the East China Sea. Controversially, it covered the uninhabited Senkaku islands. These are controlled by Japan but claimed by China (which calls them the Diaoyu). America promptly sent two bombers to fly through the zone without permission, to show it would pay no heed. But most countries, including America, grudgingly told their civilian airlines to play safe and comply with the new rules. Chinese leaders are now “waiting for the right time” to declare plans for an adiz in the South China Sea, according to the *South China Morning Post*, a newspaper in Hong Kong.

7. China’s recent moves in the South China Sea have fuelled concern that the time may be nigh. An adiz there might be easier for China to monitor than the one in the East China Sea, says Zack Cooper of the American Enterprise Institute, a think-tank. It could use not only radars on Hainan island or the Chinese mainland coastline, but also the new ones it has placed on the Spratlys and Paracels. China could fill in any gaps using surveillance planes or fighter jets, both of which it has deployed on these islands, or else with radar-equipped destroyers. China could probably track “the vast majority of foreign aircraft” entering the adiz, says Mr Cooper.

8. American military planes would undoubtedly ignore China’s rules, as they do in the East China Sea. So why bother? The answer is that even a partially successful adiz might benefit China. Although an adiz does not imply sovereignty over the airspace it covers, it can be used to show authority. In 2010, for instance, Japan extended its adiz to cover one of its islands, part of whose airspace had for decades lain within Taiwan’s adiz. There is no evidence that China has used its existing adiz to disrupt civilian air-traffic, but it may see it as a tool for doing so in a crisis. And China may see an adiz in the South China Sea as a way of justifying more air patrols there.

9. But there are drawbacks. China’s claim to the South China Sea is vague. Its maps show a “nine-dash line” which loops around the entire sea, but the government does not give the line’s co-ordinates nor say what it means. In the East China Sea, China’s adiz largely follows its claimed continental shelf. If an adiz in the South China Sea were to be drawn only around the scattering of Chinese-held features, it could “fatally undermine” any attempt by China to claim everything within the line, says Alessio Patalano of King’s College London. But if it were to follow that line, there would be a bigger uproar. For years, the ten-member Association of South-East Asian Nations has been divided over how to handle China. Several members are keen to mollify it, while a few would prefer to be tough. A virtual summit is due later this month. An adiz could tip the diplomatic balance, says Collin Koh of the S. Rajaratnam School of International Studies in Singapore. The bloc’s efforts to negotiate a code of conduct with China to regulate behaviour in the sea could be a casualty.

10. America’s decision to send warships, drones and bombers to patrol near the beleaguered *West Capella* (until the drillship left the area in May), and its current deployment of the three carriers, is a signal of support for China’s rivals. In a letter to the un on June 1st America decried China’s “excessive maritime claims”. It has been sending growing numbers of warships to challenge those claims by sailing through

waters that China says it owns. The most recent such “freedom of navigation operation”, on May 28th, was the fifth this year. Even without an adiz, the sparring will intensify. .

Correction (June 21st 2020): *A previous version of this article stated that Japan had extended its Air Defence Identification Zone (ADIZ) to cover a Japanese-held island claimed by Taiwan, which Taiwan had included in its own ADIZ. In fact the island, Yonaguni, is not claimed by Taiwan and Taiwan's ADIZ had included only part of Yonaguni's airspace.*

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