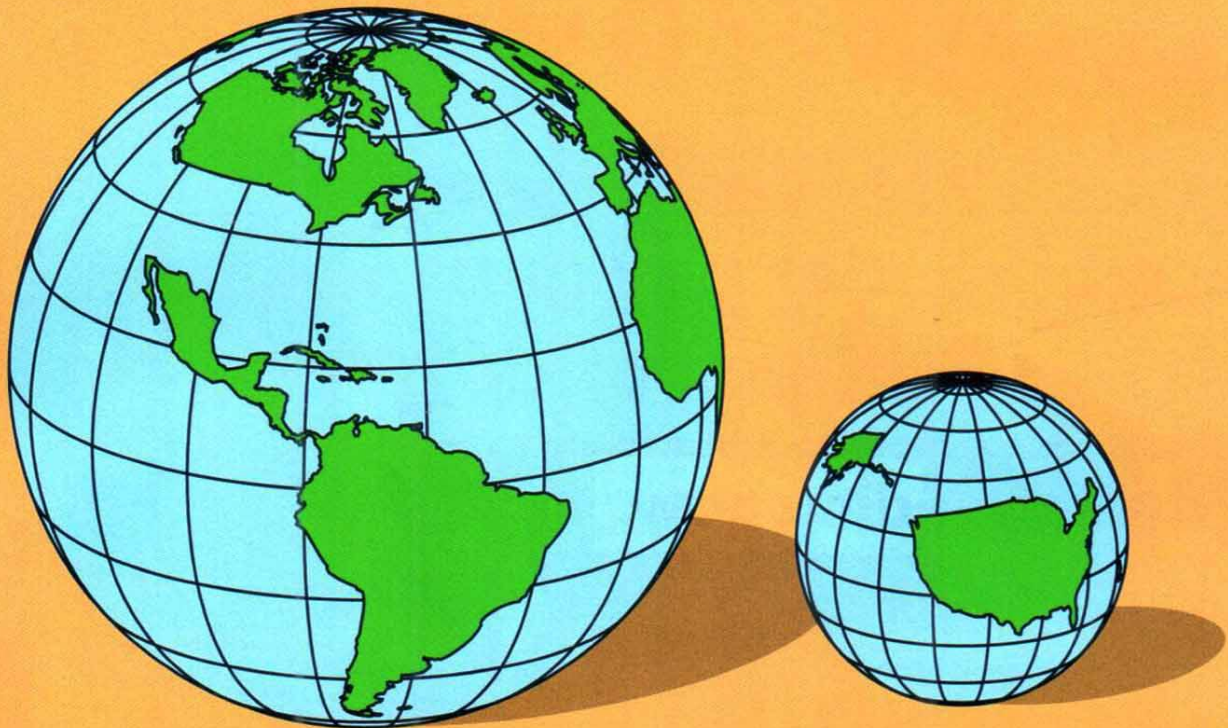


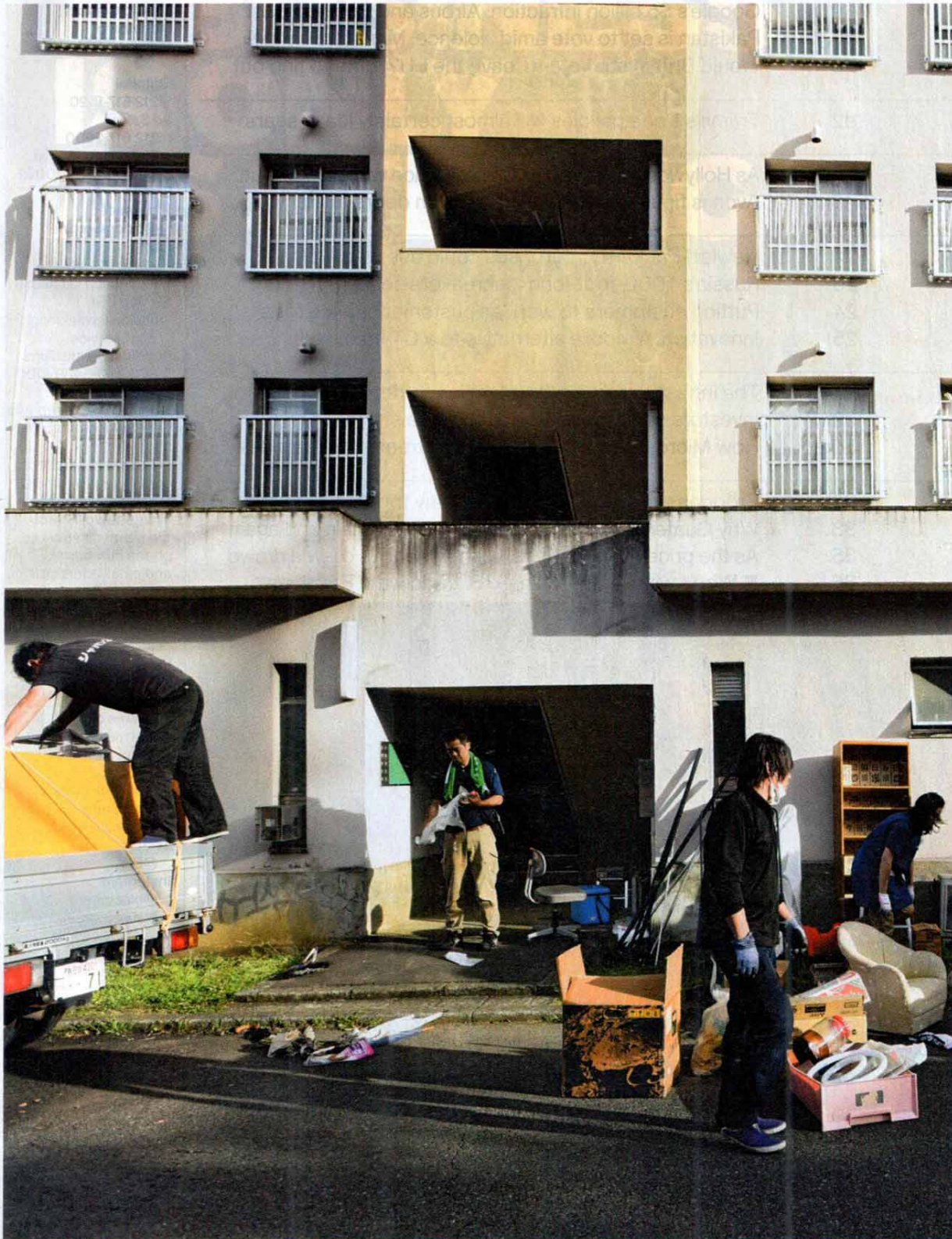
# Bloomberg Businessweek

July 23, 2018 ● ASIA EDITION



## Ready for This?

What Trump's trade war  
really means 12



◀ A clean-out crew in Kanagawa prefecture, outside Tokyo, deals with personal belongings after a death

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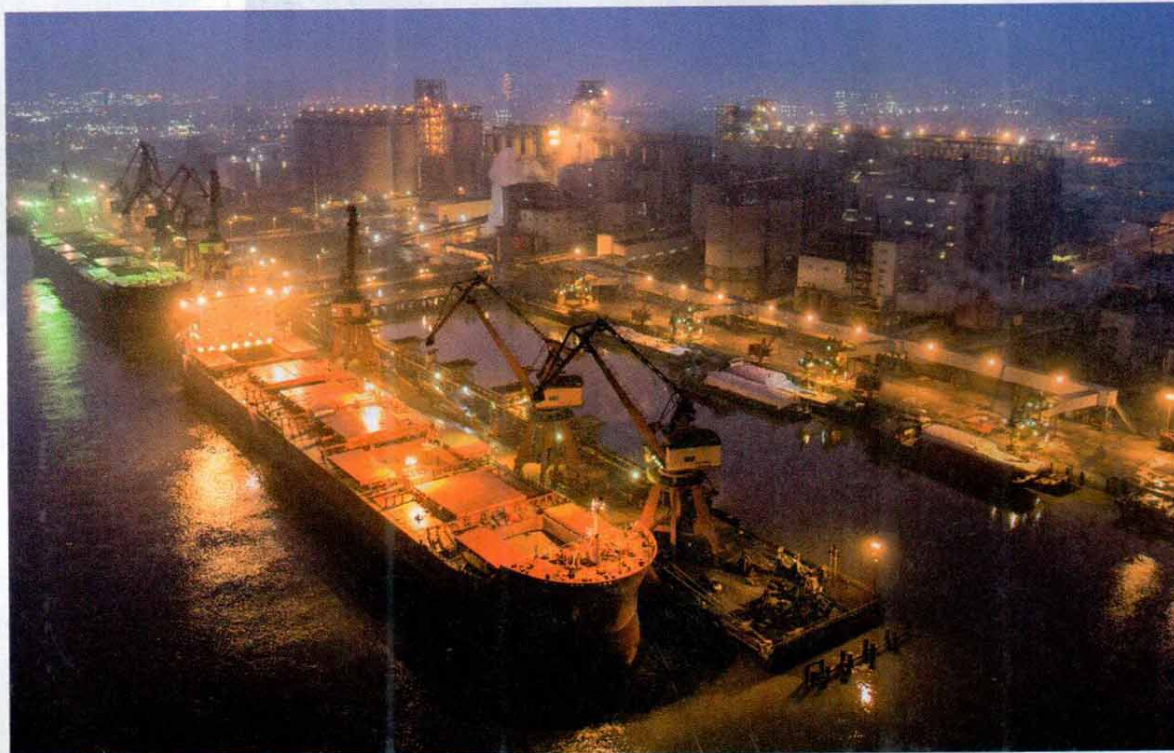
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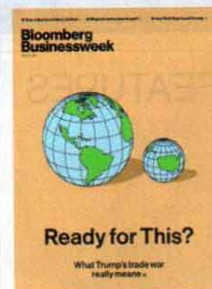
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Cover:  
Illustration by 731

● EU antitrust regulators issued Google a record

## \$5b

fine for using its Android mobile platform to sideline rival search engines. Google's appeal of a separate \$2.7 billion fine issued in June 2017 has yet to go before a judge.

● Donald Trump spent the days after his meeting with



Russian President Vladimir Putin in Helsinki attempting to quell controversy at home. His remarks on election interference drew outcry from both ends of the political spectrum, while few in the administration came to his defense.

● “When times are tougher, you can’t leave. And, when times are better, you don’t want to leave.”



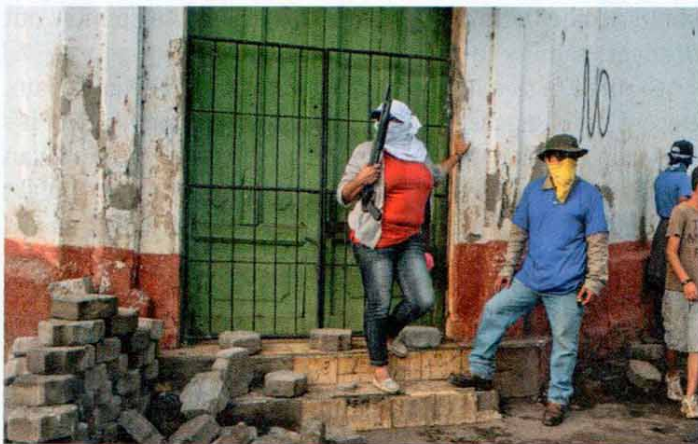
Goldman Sachs CEO Lloyd Blankfein formally announced his retirement in a July 17 memo to staff. The bank's president, David Solomon, will take over the job effective Oct. 1.

● Netflix investors were far from chill as the streaming giant missed its second-quarter new-subscription goal by about 1 million subscribers. Shares opened 13 percent lower on July 17, the day after the announcement.



● Sinclair Broadcast Group suffered a setback in its \$3.9 billion bid to acquire Tribune Media. Federal Communications Commission Chairman Ajit Pai said on July 16 that he had “serious concerns” with Sinclair’s plans to divest certain stations, which he suggested would remain closely tied to the company. Sinclair’s proposal has been sent to an administrative law judge for review.

● Four high-tax states sued the Trump administration over state and local tax deductions, claiming the government’s plan to cap them hamstrings states’ authority and disproportionately harms their residents.



● Government forces retook a symbolically important neighborhood in the Nicaraguan city of Masaya, a center of resistance to President Daniel Ortega. More than 350 people have died since protests, sparked by cuts to social security programs, began in April.

● Japan and the European Union signed a deal to create one of the world’s largest free-trade zones.

Among many goals, the measures should boost Japanese automakers and European vintners.

● Airbus and Boeing shielded the identity of buyers behind some **\$35b** in orders at the Farnborough International Airshow in London. The unusual secrecy comes at the request of mostly Asian purchasers, who want to avoid negative press in the midst of a growing trade war.

- Amazon.com founder Jeff Bezos’s net worth hit \$150 billion on July 16, making him the richest person in modern history.
- Fed Chairman Jay Powell testified in the House that he doesn’t foresee a recession in the near future.
- Texas Instruments CEO Brian Crutcher resigned over code-of-conduct breaches. He held the job less than two months.
- Banks estimated that soccer fans spent about \$1.5 billion in Russia during the World Cup, which concluded on July 15.

# AGENDA



## ▶ The Kids Aren't All Right

The Trump administration has until July 26 to reunite families separated while attempting to cross the U.S. border. The government missed a July 10 deadline to reconnect 102 children under age 5 with their parents and was ultimately able to return only 58 of them.

▶ Pakistan holds national elections on July 25. At least three major attacks targeting politicians have occurred in the weeks before voting.

▶ The U.S. Department of Commerce issues second-quarter GDP estimates on July 27. The expected 4 percent growth rate would be the highest since 2014.

▶ Former Trump campaign Chairman Paul Manafort's trial on charges stemming from the Mueller inquiry is set to begin in Virginia on July 25.

▶ European Commission President Jean-Claude Juncker travels to Washington on July 25 to negotiate a reduction in auto tariffs.

▶ Walt Disney and 21st Century Fox shareholders vote on July 27 to approve Disney's \$71 billion acquisition of Fox assets.

▶ Johannesburg hosts a summit of leaders from the five BRICS nations on July 25-27. The Kremlin has said Vladimir Putin plans to attend.

## ■ THE BLOOMBERG VIEW

# Let Britain Choose Again

● The Brexit deadlock in the Conservative Party and in Parliament might be solved with another referendum

U.K. Prime Minister Theresa May's new Brexit strategy is collapsing even before the European Union responds. Her plan offered an awkward compromise between a clean break from Europe, which would cause enormous economic disruption, and remaining in the EU, which voters rejected two years ago. Apparently, it's an offer nobody wants to accept.

May's Conservative Party is bitterly divided between Leavers and Remainers. The Labour Party opposition is split, too. Many on both sides, though, are calling May's soft Brexit the worst possible outcome. Remainers say it's an unworkable fudge; a clean break would be better than this. Leavers call it Brexit in name only; staying in the EU would at least be honest.

Europe might soon reject May's approach anyway. Indeed, May was forced to yield on provisions that will make her plan even less palatable to the EU. And on July 17, she had to rely on Labour members of Parliament to make sure what was left of her plan narrowly survived a vote in the House of Commons.

If her proposal can't break the deadlock in her own party, however, there's another way to go. The choice between staying or leaving should be put back before voters.

This won't be easy, but it's starting to look possible. A former minister has come out in favor of a second referendum, the first senior Tory to do so. Labour's leadership hasn't ruled it out. Such is the disarray in both parties that no plan—leave, stay, or split the difference—looks capable of commanding a majority in Parliament. In this state of paralysis, with Brexit deadlines looming, the House of Commons could decide to throw the decision back to the country out of sheer inability to do anything else.

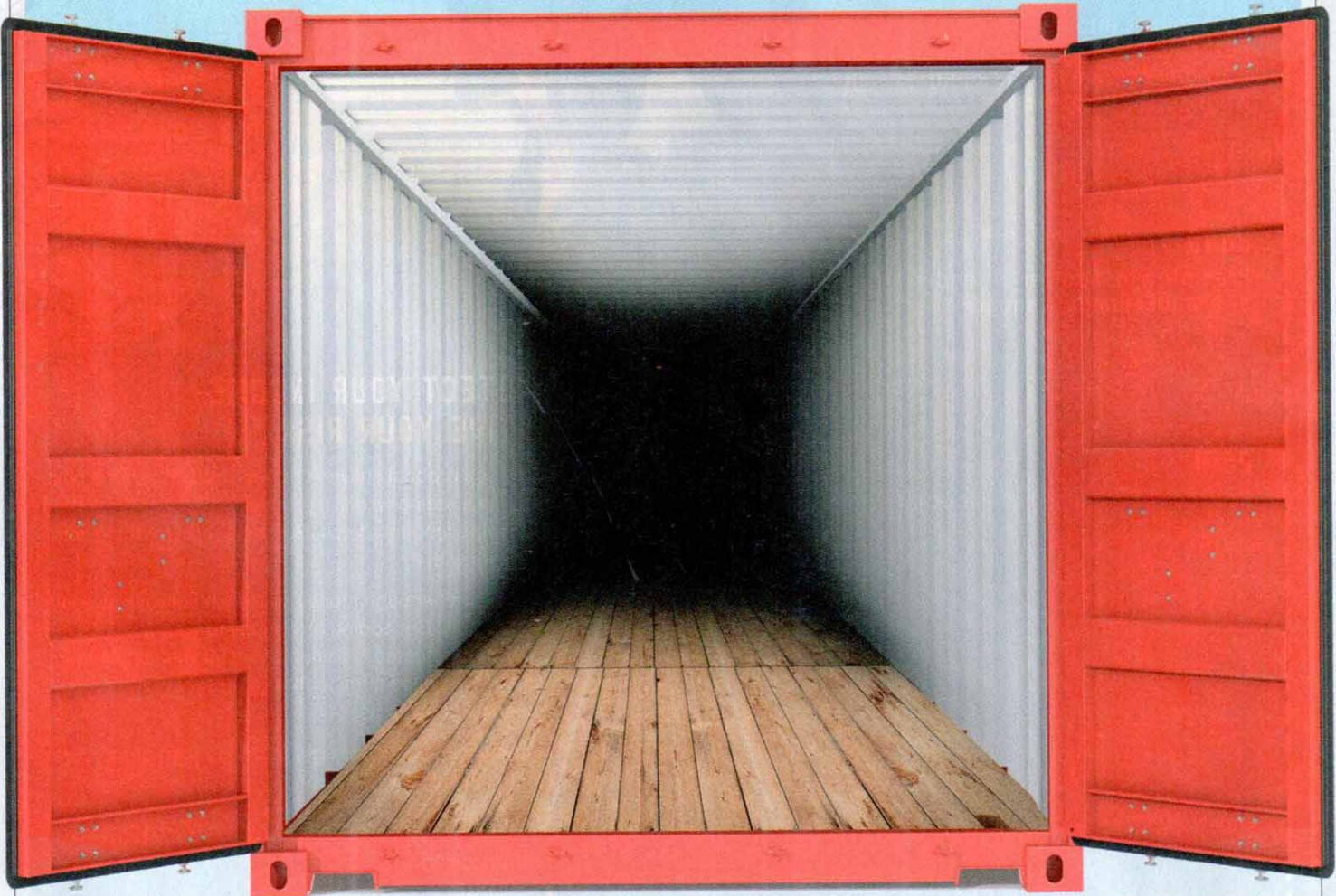
Granted, if that happened, the result would be uncertain. Recent polls suggest movement in favor of Remain, but it's less than decisive. The EU's position on whether Brexit can or should be stopped is also unclear. Europe's leaders might feel they've had enough of Britain, and if they took a hard line during another referendum campaign, it could push support back to Leave. Whatever happened, the issue would not be settled: As soon as a second referendum reversed the 2016 vote, a campaign for a third referendum would begin.

Yet Britain's past two years of self-sabotaging politics have proved one thing: Voters in 2016 were offered a choice they didn't understand. They opted for Brexit without knowing what it would mean. By now, voters have at least learned that, whatever form it takes, it will be complicated and costly.

That's not all that's changed since the 2016 vote. Britain's relationship with Europe has fractured, perhaps beyond repair. A second vote won't fix that, but it might avoid the impending chaos of a no-deal Brexit. At the moment, every option other than a revote looks worse. **B**

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# Where Will a Trade War Take Us?



# Hollywood Looks for a Bigger Role in China

● U.S. studios expected greater access to the mainland in 2018. Then the trade war erupted

This was supposed to be a big year for Hollywood in China. The five-year World Trade Organization film pact the U.S. and Beijing signed in 2012 was set to be renegotiated, holding out the promise that American studio productions would gain greater access to the world's second-largest movie market. The industry had expected to see an increase in the number of U.S. films allowed, more access to key viewing windows such as summer, when China's film authorities rarely allow foreign movies, and a higher share of box-office receipts.

Now it's looking like Hollywood's long-awaited payday in China could become collateral damage in the trade war brought on by President Trump's tariffs. Not only have negotiations about widening access to the market stalled, but some in Hollywood also quietly worry that their films could be targeted in retaliation for tariffs the U.S. has identified for about \$250 billion in imports from China. "The timing for this is inopportune," says Chris Fenton, a trustee of the U.S.-Asia Institute and former president for U.S.-China film company DMG Entertainment. "In fact, the macro environment may be getting worse. It also could lead to the worst-case possibility of China backtracking on past agreements."

Although it's uncertain whether movies will end up on the lists of goods the U.S. or China have said might get slapped with new tariffs, the threat to American film exports is clear. Hollywood could be a victim should China choose "qualitative retaliation," says Kenneth Jarrett, president of the American Chamber of Commerce in Shanghai. That could include a worsening of revenue-sharing terms for film deals. Or China's film industry regulatory authority, recently shifted to a group within the Communist Party, could

simply approve fewer U.S. films for import or limit their runs to low-season periods.

In a January report on China's WTO compliance, the Office of the U.S. Trade Representative said Beijing had agreed to discuss "policies and practices that may impede the U.S. film industry's access to China's market." This month, however, China said it is "forced to retaliate" for the Trump tariffs but didn't set targets. The Office of the U.S. Trade Representative declined to comment on the current status of the film talks. "We are hopeful both governments can continue to work together," Chris Ortman, a spokesman for the Motion Picture Association of America Inc., said in an email.

Movies could be especially vulnerable to China trade actions because they're one of the very few U.S. imports that dramatically exceed exports. U.S. companies "are worried about regulatory retaliation, whether approvals will be hung up, or you could see a slowdown in the imports of Hollywood movies," Jarrett says.

U.S.-made films' share of China's \$8 billion market is on track to decline for a third year, an analysis of data from Box Office Mojo shows. U.S. studios in recent years have been losing ground to local films such as *Wolf Warrior 2*, a nationalistic action flick that last year became China's best-performing movie. And American releases increasingly are bested by Bollywood imports such as *Secret Superstar*, a big hit on the mainland made for a fraction of the budget of a typical *Star Wars* or *Avengers* movie. "Hollywood blockbusters have seen better days in China," says Chen Qin, who researches China's film market at Fudan University's School of Economics. "Even if China increases Hollywood's access to the market, those films are still not going to sell well."

That's in part because of the fast audience growth in China's smaller cities, where patrons have less exposure to Western culture and are more likely to choose films with Chinese themes, Chen says. Many viewers across China are also unfamiliar with the characters and plots of older American film franchises, so they don't get much out of ▶



# Growing Clouds

Inside Hewlett Packard Enterprise, the new CEO is a bona fide celebrity. Outside, he's got a lot to prove

At his company's local customer support and research and development center in Bangalore, Antonio Neri got a reception that's tough to square with the image of Hewlett Packard Enterprise Co. Four thousand employees stood under a tent in India's sticky, 97F March heat to cheer their new chief executive officer and waited in line for hours to take photos with him 10 at a time. Wearing a traditional yellow garland over his dark suit, Neri set an easy smile on his face. Two hours deep in the receiving line, he made as if to leave to catch a flight, then opted to keep posing instead.

Close to six months after he officially succeeded Meg Whitman as CEO, Neri has received versions of this star treatment at offices throughout Asia, Europe, and elsewhere. The warmth that's greeted him has been something more than the run-of-the-mill butt-kissing expected during a visit from the boss. The crowds seem genuinely convinced when Neri tells them HPE is entering a new era with the

tools it needs to succeed, and that they could rise from the call center to the C-suite, like he did. "As an employee of the company for over 20 years, I know every system and every process, which is good and bad," Neri said at HPE's conference in Las Vegas in June. "But I have a unique opportunity to really transform the company."

Neri has a lot to prove. The little-known CEO, who took over from one of the most recognizable women in U.S. business, is still largely following her playbook—hawking servers, storage hardware, and networking gear that are less essential than ever in the era of cloud computing. Dell Technologies Inc. and the cloud giants (Amazon.com, Microsoft, Google) have sapped HPE's client base, and they're working harder to target the clients it has left. HPE has slashed costs and jobs and is groaning under almost \$14 billion in debt.

While HPE has made some minor investments and acquisitions during Neri's first two quarters ▶

Edited by  
Jeff Muskus





## The Infrastructure Boom That Wasn't

Big money is looking for projects to invest in, but the pace of dealmaking is slow

St. Louis's Lambert International Airport traces its history to aviation's beginnings. The man it's named after—Albert Bond Lambert—learned to fly with the Wright brothers. Charles Lindbergh started there, delivering airmail, and then christened his famous plane the *Spirit of St. Louis*. In 1928 the facility became one of the first municipally owned airports in the U.S.

These days, the place could use a makeover: Some recent reviewers on Yelp complained about too few bathrooms, limited food options, and not enough outlets to charge cell phones. One traveler called it the “okayest” airport he'd ever visited. In a bid to give the facility a refresh, the city has been pursuing a plan to hand day-to-day operations to a private company.

It's one of dozens of public-private partnerships—including a \$9 billion plan to expand highways outside Washington or the build-out of a “smart city” system in Kansas City, Mo.—that have been pitched throughout the U.S. in recent years to provide much-needed upgrades to infrastructure. Meanwhile, the Trump administration has called for having the private sector play a big ►

Edited by  
Pat Regnier

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# The Most Influential People in Turkish Finance



## ● Erdogan's attempts to undermine the central bank could cause investors to bolt

Recep Tayyip Erdogan has proved to be a man of his word. Modern Turkey's longest-serving leader has moved quickly to solidify his control over the economy after being sworn in for another five-year term as president on July 9. He immediately named his son-in-law to oversee economic policy and issued a decree claiming exclusive power to appoint the leadership of the central bank.

Dismayed investors responded by dumping Turkish assets, sending the lira to a record low. On July 13, Fitch Ratings Inc. downgraded Turkey's long-term sovereign debt further into junk territory, noting in a statement that "economic policy credibility has deteriorated in recent months and initial policy actions following elections in

June have heightened uncertainty."

On paper, the new economy czar, Berat Albayrak, has the right qualifications for the job, including a Ph.D. in finance, a business degree, and experience as a corporate executive. Yet his appointment triggered the biggest sell-off in Turkey's financial markets since a failed military coup two years ago. "Yes, he's got an MBA from a U.S. university, and he's been a CEO, but is he really going to stand up to his father-in-law?" says Nigel Rendell, a senior analyst at Medley Global Advisors LLC in London. "Would he be prepared to argue that interest rates should be significantly higher and economic policy much tighter?"

Albayrak's ascension is the culmination of a yearslong process that saw members of Erdogan's investor-friendly A-team removed from the government one by one. Mehmet Simsek was the last man standing in a group of politicians who tried to rein in the president's go-for-growth instincts and keep Turkey's \$880 billion economy on a sustainable

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# The Investigation Trump Can't Shake

The botched Putin summit gives Deputy Attorney General Rosenstein some breathing room

Even for a Friday the 13th, it was a strange event. Just three days before President Trump was scheduled to have his first one-on-one meeting with Russian President Vladimir Putin, the top U.S. Department of Justice official in charge of the Russia investigation laid out the most detailed accusations yet of how Russia worked to elect Trump in 2016. After giving less than two hours' public notice, Deputy Attorney General Rod Rosenstein took the podium on the seventh floor of Justice Department headquarters and, in his low-key, straightforward manner, announced that 12 more Russians had been indicted for allegedly interfering in the 2016 presidential election.

The 29-page indictment, delivered by special counsel Robert Mueller, accused a handful of senior Russian intelligence officers of orchestrating a hacking scheme that penetrated Democratic campaign groups and led to the theft of thousands of emails and other information. In his prepared remarks, Rosenstein said he'd briefed Trump on the details earlier that week. Asked if Trump indicated his support for the findings, Rosenstein said he'd let the president speak for himself.

Three days later, he did. Standing next to Putin, Trump called the Russia investigation "a disaster for our country" and sided with Putin over U.S. intelligence agencies on the question of Russia's efforts to tilt the election. Trump refused to denounce Putin for the attack and said he didn't see any reason why Russia would interfere in the U.S. election—a sentiment he's since tried to walk back, saying he misspoke.

The Putin summit was always going to be strange. But coming as it did on the heels of the bombshell indictments, the discussions backed Trump into a corner. His apparent willingness to please a Russian leader in such a public setting will reverberate for months, with effects almost too large to measure. All the more baffling is that this is apparently the way Trump wanted it to happen. According to accounts from people familiar with the decision, Rosenstein offered Trump the

choice of having the indictments come out before or after the Putin summit. Trump chose before, in the hope that it would strengthen his hand.

The most immediate effect is that it takes the air out of Republican efforts to quash the Russia probe. Trump's performance in Helsinki, coupled with the details of the indictment, makes it almost impossible to cast the investigation as a waste of time. After the summit, senior GOP leaders came out strongly in favor of allowing Mueller to finish the job, including House Speaker Paul Ryan, who told reporters that "Russia is trying to undermine democracy itself" and said the probe should continue. Tennessee's Lamar Alexander, the Senate's No. 3 Republican, said Trump's performance "makes it even more important" for the Russia probe to continue.

It also lowers the heat on Rosenstein. In the past few months, Trump supporters in Congress have attacked Rosenstein for withholding information they say shows anti-Trump bias in the FBI. Some have pushed for ways to force Rosenstein to end the probe or get rid of him outright. With Attorney General Jeff Sessions recused from the Russia investigation, Rosenstein, the No. 2 Justice Department official, oversees Mueller's work, including approving his budget and charging decisions. That's made him a regular target of Trump's ire and means any attempt to shut down or rein in the Mueller probe has to go through him. While the special counsel has quietly gone about his work, Rosenstein, as the public face of the investigation, takes the heat.

"Rod is in an impossible, zero-sum position," says Matthew Axelrod, a partner at Linklaters who previously worked as a top official to former Deputy Attorney General Sally Yates. "Typically, when a deputy attorney general highlights or defends the work of DOJ, it's what the White House expects. But when Rod highlights or defends the work of DOJ, you have to assume it drives this White House nuts."

The 53-year-old career federal prosecutor came to public attention in May 2017, as the guy who wrote the memo Trump used as justification for firing