

Bloomberg Businessweek

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The New Volvo



**How China's 36th-best car company saved
the iconic Swedish brand 40**



◀ J.M. Stuart Station, Adams County's biggest employer, is scheduled to close in June

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How to Contact
Bloomberg Businessweek

Editorial
212 617-8120
Ad Sales
212 617-2900
731 Lexington Ave.,
New York, NY 10022
Email
bwreader
@bloomberg.net
Fax
212 617-9065
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Cover: Photograph by Benjamin Rasmussen for *Bloomberg Businessweek*

IN BRIEF

● The Democratic Republic of Congo rushed to fight an Ebola outbreak, using an experimental vaccine from Merck.

Development of the treatment was spurred by the outbreak that killed more than 11,300 people across West Africa beginning in 2014.



● Venezuela's neighbors refused to recognize the result of its presidential election, in which fewer than half of voters cast ballots. Incumbent Nicolás Maduro declared victory.

● The U.S. House approved a sweeping bipartisan bill to roll back regulations on small and midsize banks levied after the 2008 financial crisis. The Senate had passed the legislation in March.

● Stacey Cunningham was named president of the New York Stock Exchange. Cunningham is the first woman to lead the organization in its 226-year history. Two of the three major U.S. exchanges are now led by women: Adena Friedman was appointed CEO of Nasdaq last year.




● The Vegas Golden Knights advanced to the Stanley Cup Final in their first year as an NHL franchise. Sports bookies initially laid 500-to-1 odds against their success, so the Knights could deliver some bettors a major windfall.

● China agreed to reduce its tariff on imported vehicles to 15 percent from 25 percent, while the Trump administration said it would no longer block U.S. tech companies from selling to mobile phone giant ZTE. Treasury Secretary Steve Mnuchin told Congress that this was "not a quid pro quo," and talks are ongoing.

● Turkey's central bank reversed its stance and raised interest rates on May 23 after the lira slid to a record low of 22¢ vs. the dollar.



● Sony said it would pay **\$2.3b** for a 60 percent stake in London-based EMI Music Publishing, which controls the rights to 2 million songs from artists including Queen, Carole King, and Kanye West.

● Four years into an aggressive turnaround attempt, J.C. Penney CEO  Marvin Ellison agreed to take the top job at Lowe's, another embattled retailer.

● "What can I say? There are a lot of things I wish we had done differently over the last years."

Wells Fargo CEO Tim Sloan talked to Bloomberg Television about rebuilding trust with the bank's customers.

- Tiffany & Co. raised its profit forecast after a play for younger customers yielded 7 percent growth in same-store sales.
- Companies raced to comply with the EU's stringent General Data Protection Regulation, which took effect on May 25.
- French railroad workers soundly rejected President Emmanuel Macron's proposed overhaul of the state-owned system.
- In Georgia, Democrat Stacey Abrams became the first black woman to win a major-party primary for governor in the U.S.

MADURO: ARIANA CUBILLOS/AP PHOTO; CUNNINGHAM: BRENDAN MCDERMID/REUTERS; HOCKEY: DAVID LIPKOVSKI/GETTY IMAGES; ELLISON: ANDREW HARRER/GETTY IMAGES; DATA: COMPILED BY BLOOMBERG



▶ You Just Got Netflixed

At the streaming service's annual meeting on June 6, investors will focus on two key figures: subscriber growth, of course, but also spending on original content. The more Netflix produces, the harder it becomes for smaller services to compete.

▶ Investors in businesses associated with sanctioned Russian billionaire Oleg Deripaska must withdraw money by June 6 or risk U.S. sanctions themselves.

▶ Karim Baratov, who pleaded guilty to illegally accessing user information for hundreds of millions of Yahoo! email accounts, will be sentenced on May 29.

▶ The New Jersey Legislature is expected to pass a bill legalizing sports betting on June 7. Governor Phil Murphy hopes to sign it into law that day.

▶ The American Society of Clinical Oncology hosts its annual meeting from June 1-5, with most of the world's major pharma companies in attendance.

▶ Toshiba completes the \$18 billion sale of its memory chip unit on June 1. The buyers are a group led by Bain Capital.

▶ On May 29, Starbucks will close all 8,000 of its company-owned stores in the U.S. to conduct anti-bias training with its staff.

■ THE BLOOMBERG VIEW

Volckerdämmerung?

● Simplify the rule, but focus on outcomes rather than trying to get into traders' heads

The Trump administration is drawing up a proposal to simplify the Volcker Rule, one of the most controversial pieces of the 2010 Dodd-Frank Act. This could be a desirable development, as long as it doesn't weaken a crucial safeguard against gambling with taxpayers' money.

The Volcker Rule has a worthy goal: Limit government subsidies to financial institutions. When authorities bailed out banks during the 2008 crisis, they found themselves propping up activities—including outright bets on securities and derivatives—that had little to do with providing credit. To narrow the scope of what taxpayers support, the rule largely prohibits deposit-taking institutions from speculating.

Congress, however, left regulators to define what speculating, or "proprietary trading," actually meant. This was difficult, because legislators also agreed to exempt two activities hard to distinguish from it: market-making and hedging. Both involve buying and selling securities and derivatives, in the first case on behalf of customers, in the second to mitigate risks.

Regulators tried to put the burden of proof on banks. Positions held for fewer than 60 days are presumed to be proprietary trading unless a bank can prove otherwise, in

part by producing a slew of trading metrics. The idea was that examiners would learn to divine traders' intentions from the data. But they haven't. Worse, each agency can interpret the data in its own way. It's a mess.

The various regulators—the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Commodity Futures Trading Commission—are close to proposing changes. Bloomberg has reported that they plan to drop the 60-day presumption, allowing banks more leeway to decide how to comply.

This could make sense, but not if it leaves the basic question—what is speculation?—unanswered. Banks still won't be sure how to comply. And taxpayers could find themselves back in the business of subsidizing proprietary trading.

A better way might be to focus on outcomes, not intent. Speculative trading differs from market-making and hedging in seeking to profit from price movements. That makes it prone to big gains and losses. Setting a conservative threshold for volatility, typically lower than that of the broader market for the relevant assets, would draw a bright line. Breach it, and you'd have to explain yourself.

Granted, some speculative activity might slip through, just as now. But the key is to limit risk to taxpayers while lifting the burden of reporting and compliance, which this would do. The stringency of the rule would depend on where regulators set the threshold: Done right, simpler could even be stronger. **B**

For more commentary, go to bloomberg.com/opinion

REMARKS

Now You See Kim...





● With models starting at \$6,000, its Baojun brand targets buyers in China's less affluent interior

For much of the past decade, sales of global automakers were buoyed by demand from China, whose residents have eagerly snapped up locally produced versions of pricey foreign cars such as Daimler's Mercedes-Benz, Volkswagen's Audi, and BMW's namesake sedans. Yet General Motors Co. has not only fared well with its premium-priced Buick line, it's killing it with Baojun, a made-for-the-mainland brand that sells for as little as \$6,000.

There was a method to the down-market move. GM figured the next wave of car buyers in China would come from the smaller cities, especially in the interior of the country, where the middle class is growing and people are buying more cars. Baojun sales are up tenfold since 2013, to 1 million cars last year, more than Chevrolet and not far behind Buick.

GM rode the postwar economic boom in the

U.S., when legendary company Chairman Alfred Sloan Jr. had a brand for "every purse and purpose." Chevrolet was the entry car, with wealthier buyers moving on to Pontiac, Oldsmobile, Buick, and eventually Cadillac. GM is making a similar play in China, with Baojun as the Chevy. "If the smaller cities are growing faster than major cities, we're positioned for it," says GM President Dan Ammann. "We're the only major carmaker there with our own brands and a local brand."

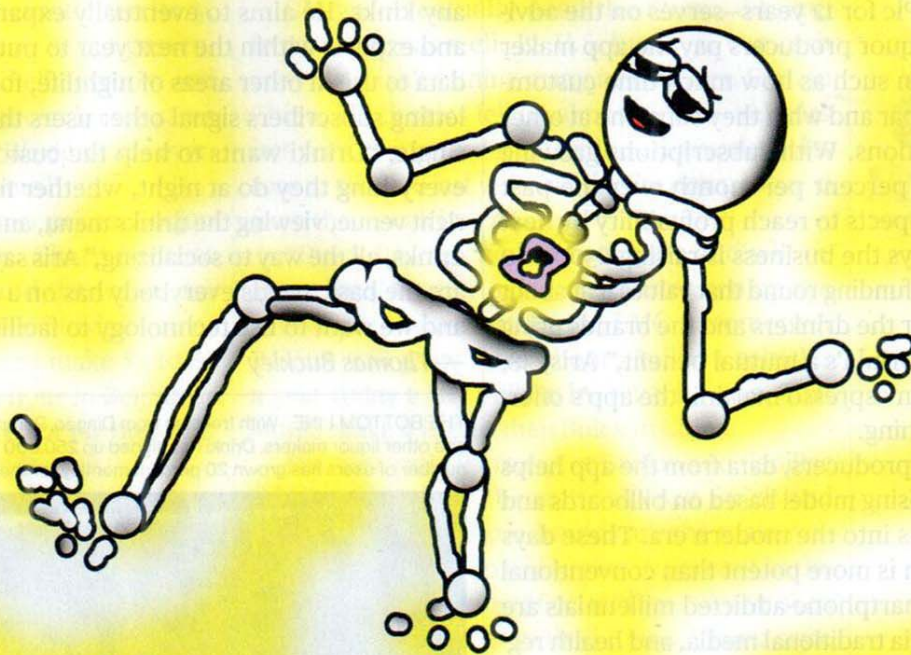
Growth in China is vital for GM because the company has retrenched in or left several other large markets. In 2017 it ended almost 90 years in Europe, having lost close to \$20 billion there since 1999; last year it also left India, where its profit margins were low; it fled Russia in 2015 in response to political and economic instability.

It's a far different story on the mainland. GM and its partners sold 4 million vehicles in China in 2017, about 1 million more than the automaker sold in the U.S. General Motors China Inc. earned about \$2 billion last year, about 18 percent of its parent's global profit. Annual auto sales in China are expected to increase by 5 million vehicles in five years, to more than 34 million, says researcher LMC Automotive Ltd.

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James E. Ellis and
David Rocks

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A Good Kind of Shock

Patients who once relied on heavy narcotics to treat their suffering are turning to costly surgical implants instead

Like millions of people caught up in America's opioid crisis, Rick Surkin used to take a pill just to get out of bed in the morning. Until last year, the former firefighter relied on thrice-daily doses of the powerful painkiller OxyContin to numb the agony from a ruptured disc in his back. "You can take enough pills to mask the pain, but they take over your life," he says. He's been able to get back on his surfboard, and into the California surf shop he manages, because a medical implant sends 10,000 pulses of low-voltage electricity through his spine per second.

The series of tiny shocks, known as neuromodulation, has kept Surkin comfortable enough to ditch Oxy. "There is a lot more time I'm pain-free now," he says. That allowed the 64-year-old to resume his outdoorsy lifestyle, and the benefits are more than just physical: His increased energy and better moods have helped revive his relationship with his wife. "I'm back to the person she married," he says.

After a half-century on the fringes of medical science, neuromodulation is becoming a mainstream alternative to painkillers for those who

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Julie Alnwick and
Jeff Muskus

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◀ Angelo Christian


How to Look Great and Make a Killing in Mortgages

Banks walked away from people with weak credit or low income. Here's who makes those loans now

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Edited by Pat Regnier Businessweek.com

Who's Afraid of



Oil

The world economy is better poised to weather higher prices

The price of a barrel of oil fell below \$100 a barrel in 2014 and has stayed below that psychologically important threshold since. However, Brent crude, the international oil benchmark, is up 46 percent in the past 12 months, and in recent days has been testing \$80. Part of the increase is explained by a resurgent global economy: The International Monetary Fund expects global growth to pick up to 3.9 percent this year, the strongest since 2011. What's worrying, though, is that supplies are more constrained than they've been in years, so disruptions to output can quickly reverberate from the wellhead all the way to the gasoline pump. Here's a look at the impact higher prices could have on a variety of important actors.

1 WHAT'S THE EFFECT ON THE WORLD ECONOMY?

While it's true that higher oil prices are generally

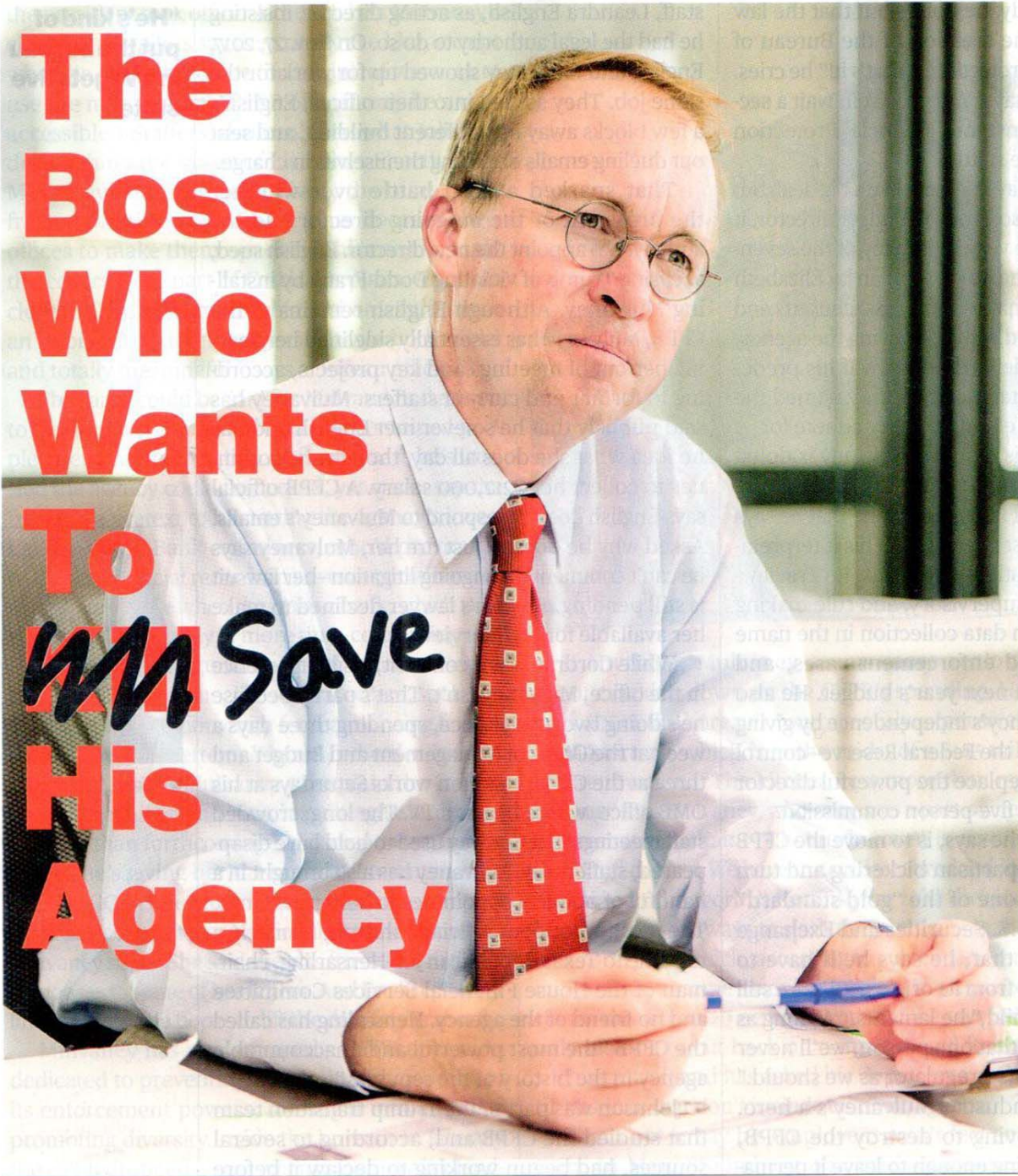
a drag on growth, the so-called oil intensity of the global economy continues to decline. A recent analysis by UBS Group AG found that the world economy needs 7 percent less oil to produce the same amount of gross domestic product than it did in 2007. Of course, the impact will vary from country to country: Those that rely on imported energy will be squeezed as costs go up, while at exporters, government coffers will get a fillip.

2 WHAT'S THE FALLOUT FROM THE U.S. PULLING OUT OF THE IRAN NUCLEAR DEAL?

Oil prices have risen 18 percent this year—half of that increase reflects stronger global demand, a Bloomberg Economics model suggests. The rest is likely due to what's known as supply shocks. Approximately 1 million barrels of crude per day are at stake from Trump's decision to reinstate sanctions on Iran, but the market effect might ▶

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The Boss Who Wants To ~~W~~ Save His Agency



● To liberals, Mick Mulvaney is a nightmare. To conservatives, he's a savior

One of the first things Mick Mulvaney did last year after President Trump asked him to be acting director of the Consumer Financial Protection Bureau was to read the statute dictating the agency's powers. Created by the landmark Dodd-Frank Act of 2010, the CFPB was designed to protect consumers from the abuses of the financial industry and is one of the Democratic Party's proudest recent achievements.

Mulvaney was no fan of the agency, having repeatedly attacked its very premise during his three terms as a Tea Party Republican in Congress. But he'd apparently never taken the time to study the statute governing it: Title X of Dodd-Frank. When he finally did, he was astonished by what was missing, namely a federal agency known as the CFPB.

"In the first section, it will jump out at you," he says, bolting from his chair during a recent interview in his glass-walled office at the CFPB headquarters. An impish, energetic 50-year-old with a round face, oval glasses, and a steely wit, Mulvaney gives the impression of a man who revels in being the embodiment of liberals' worst nightmare. Grabbing a copy of Title X of Dodd-Frank ▶

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Jillian Goodman

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