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Bloomberg Businessweek

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It's showtime

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Creating a Fair Field

Xiamen's signature annual trade and investment event gets new drive

By Zhang Shasha

It is summer in China, and Xiamen, the famed coastal city in southeast Fujian Province that historically played a key role in the Chinese exploring trade opportunities abroad, has its dog days' features on full display. It is hot and humid despite the sea breeze, and lush, ripe mangos dangle tantalizingly from bent tree branches. The bike lanes are deserted, except for a stream of diehard afternoon runners, since Xiamen is also famous for its marathons.

Another other prominent feature is the big golden key on Huandao Road, the snaking ring road that encircles Xiamen Island and provides dazzling glimpses of the sea and exquisite scenic spots. Look again, and the key turns out to be an ingenious combination of the figures 9 and 8. Propped on two stone columns, it is a giant version of the logo of the China International Fair for Investment and Trade (CIFIT), and a reminder that the annual event—which each year starts on the eighth day of the ninth month, Sept. 8—is around the corner. The key is emblematic of the fair opening the door to investors around the world.

CIFIT began in 1987 as a local foreign investment and trade fair. In 1997 it became a national event, and was taken over by the Ministry of Foreign Trade and Economic Cooperation, the predecessor of the Ministry of Commerce, and was officially named CIFIT. In the past five years, more than 100,000 businesspeople from over 100 countries have participated in the fair. With more than 30 years of history, CIFIT has become an integral part of China's investment landscape.

"As the largest global investment event recognized by the Global Association of the Exhibition Industry, CIFIT can hold its own with any international investment fair," Wang Qiongwen, Director of the Xiamen Municipal Bureau of Convention and Exhibition Affairs, told *Beijing Review*.

Going global

Last year, President Xi Jinping sent a letter to the CIFIT authorities, acknowledging the fair's contribution to China's reform and opening up, and urging it to go even more global.

China's opening up will only become wider, the letter stated. It expressed hope that CIFIT, focusing on two-way investment promotion, would start to create a more international, professional and branded platform, and play an active role in pursuing opening up on all fronts, and building an open world economy.

The CIFIT organizing committee has held roadshows and other promotions in 17 countries in Africa, South America, Southeast Asia, the Middle East and Europe in advance of this year's fair.

"We are happy to see CIFIT transformed from a one-way platform to attract foreign investment to a bilateral investment promotion platform," Rafael Torres, Vice President of the Peruvian-Chinese Chamber of Commerce, said.

"There is a huge consumption market in China, and CIFIT provides participants with an opportunity to learn the local investment environment, policies and projects in China," He Jun, Economic-Commercial Counselor at the Chinese Consulate General in São Paulo, Brazil, said.

"Global investors want to make full use of CIFIT, a shared investment promotion platform, to seek opportunities to cooperate with Chinese companies as well as other parties and countries," Wang said. "CIFIT helps countries improve and optimize their business environment, including social and economic conditions, legislation and preferential policies, so that they can attract more foreign capital."

This year is especially important for CIFIT because of the growing interest among global investors in the Belt and Road Initiative.

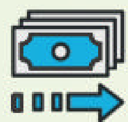
Proposed by China in 2013, the overland Silk Road Economic Belt and sea-based 21st-Century Maritime Silk Road initiative is building and expanding the ancient Silk Road trade routes and connecting Asia with Europe, Africa and beyond with improved infrastructure, trade links and people-to-people exchanges.

At the Second Belt and Road Forum for International Cooperation in Beijing in April, Xi

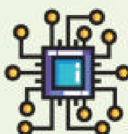
2019 CIFIT at a Glance

Held at the Xiamen International Conference and Exhibition Center from September 8 to 11, the trade and investment fair will highlight the following initiatives:

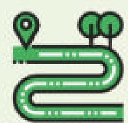
Silk Road Maritime International Cooperation Forum: Discussing how to construct the 21st-Century Maritime Silk Road to facilitate trade with port cities.



International Investment Forum 2019—The Belt and Road Investment Congress: Discussing construction of investment platforms and promoting negotiations on investment protection agreements involving government authorities, industrial players and business associations.



Digital Silk Road: A display of Belt and Road participants' achievements in 5G applications, network equipment and information safety, and promoting cooperation in the communications industry.



Green Silk Road: This will showcase Belt and Road participants' achievements in green industries including green industrial park construction, green finance and green industrial development.

Silk Road Trade Pavilion: This will showcase agricultural products, combining them with cross-border e-commerce to boost trade.

(*Compiled by* Beijing Review; *designed by Pamela Tobey*)

A freighter docked at a terminal in the Xiamen area of the China (Fujian) Pilot Free Trade Zone in southeast China's Fujian Province, on July 11.

said China will work with all parties to advance results-oriented implementation of Belt and Road projects "in the spirit of an architect refining the blueprint."

CIFIT 2019 will focus on integrating the initiative into its projects and activities, Wang said.

A sea change

Wang recalled the first time he attended the fair in 1997, when there were about 30 countries and regions participating. The investors were mainly from Hong Kong and included Chinese expatriates from Southeast Asia. Today, the venue is six times larger, the number of activities has quadrupled and the number of participants has quintupled.

Wang said that in the 1990s, when transnational corporations like Linde, a leading truck manufacturer, and computer technology company Dell came to Xiamen, China's business environment might not have been ideal for their investment requirements. However, their arrival accelerated improvements, as the investments bettered living conditions and facilitated the development of Xiamen's urban traffic network. Public service facilities such as new hospitals and international schools were built. Subsequently, more international capital poured in.

"The optimization of the business environment does not simply mean having preferential tax or industrial policies," Wang said. "International investment is not just capital operations; it is more the introduction of talent."

To attract talent, the government must ensure that their requirements for living conditions, health and their children's education are met, which is also part of the business environment, he added.

Over the years, Xiamen's improved business environment has attracted more investors. According to CIFIT statistics, $340 billion in foreign capital has entered the Chinese market through the fair since 1997. Xiamen ranks second among Chinese cities in the ease-of-doing-business list compiled by the National Development and Reform Commission in 2018, only behind Beijing.

According to Wang, investment cannot be accomplished in one stroke; it is a long-term process. CIFIT combines its online platform with offline events to ensure that investors get timely investment information, and online matchmaking between global investors and projects takes place all year, not just on the four days of the fair. Also, before and after each fair, enterprises are invited to visit the province highlighted as the fair's guest province, for matchmaking and promotional activities. This year's guest province is Shanxi in the north, a major coal-producing area.

In 2013, CIFIT launched a smart customer relationship management (CRM) system. Investment information is collected from both investors and enterprises, creating a rich database of industries, markets, companies and project details for global investors to find a suitable match.

As the world economy faces uncertainties due to trade protectionism and other factors, CIFIT faces challenges in promoting economic integration and investment facilitation. "But despite the challenges, we still have positive expectations about this year's CIFIT because China remains an attractive destination for investment," Wang said. "China's strong capital, and the cooperation with the countries participating in the Belt and Road Initiative, especially the Association of Southeast Asian Nations and African countries, will bring new opportunities."

The Foreign Investment Law, passed by the legislature on March 15 to replace three existing laws with unified provisions, will come into effect in January, and is expected to boost foreign investors' confidence with more institutionalized protection of foreign investment. Some of the key features of the law are equal national treatment of foreign investment, improved protection of intellectual property and reaffirmation of the ban on forced technology transfer.

Wang said future editions of CIFIT will be tailored to the new law. "CIFIT will step up efforts to enhance investment protection, services and promotion to send a positive message from China to investors," he said. ■

Scan here to watch a video about CIFIT

Comments to yanwei@bjreview.com

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CORRECTION "Elizabeth Warren Is Done Playing It Safe" (Cover, July 29) said Al Franken was first elected to the Senate in 2012; he was elected in 2008.

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IN BRIEF

By Benedikt Kammel

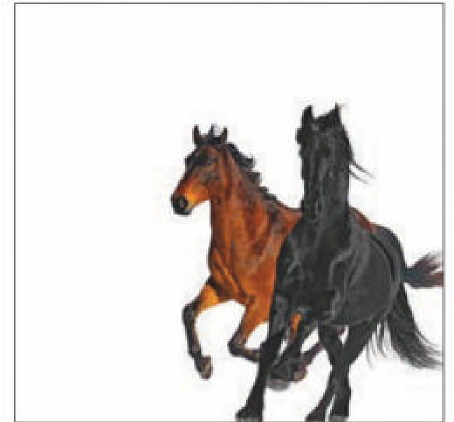
● Boris Johnson stood firm on his promise to pull off Brexit by the end of October. The new prime minister says he will follow through, even if it means the U.K. crashes out of the EU with no deal. Brussels signaled that the current accord is the final one. The pound plummeted against the U.S. dollar.

● Donald Trump ramped up his rhetoric against China, accusing it of continuing to "rip off the USA."

Specifically, the president says, China isn't honoring a pledge to buy U.S. agricultural products. His tirade came on the eve of fresh trade negotiations in Shanghai. Those talks ended abruptly with no sign of progress toward ending the dispute between the world's largest economies.

● Pfizer announced plans to combine its business selling older blockbuster drugs such as Lipitor and Viagra with generic drugmaker Mylan. The publicly traded company will have annual revenue approaching

$20b



● On July 29, Lil Nas X's *Old Town Road* marked its 17th straight week atop the Billboard Hot 100 chart. That beats the previous record of 16 weeks, first achieved by Mariah Carey and Boyz II Men's *One Sweet Day* more than two decades ago.

● IHG, which operates the Holiday Inn and InterContinental chains, is switching to bulk-size shampoos and shower gels worldwide to cut plastic waste. The change will allow the company to avoid using

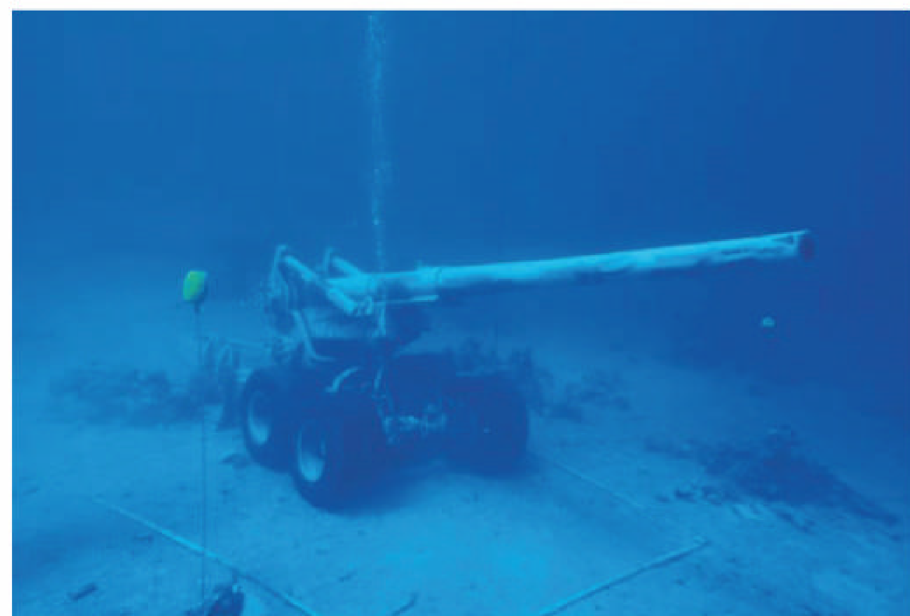
200m

miniature bottles each year to restock its 5,600 rooms.

● V.G. Siddhartha, who founded India's Café Coffee Day chain, was found dead in an apparent suicide, after leaving a note decrying pressure from lenders and tax officials. Shares of the company dropped 20% on July 30.

● "It's not the beginning of a long series of rate cuts. I didn't say it's just one."

Federal Reserve Chairman Jerome Powell on July 31 after the Fed cut its target lending rate a quarter percentage point. Stocks fell as investors dialed back hopes for easier monetary policy.



● Jordan has sunk a collection of military vehicles, including old tanks and other disused army equipment, to create an underwater military museum in the Red Sea.

● Citigroup is preparing to cut hundreds of jobs in its fixed-income and stock-trading operations, including at least 100 positions at its equities unit, in response to a persistent trading slump across the industry.

● Bayer revealed more trouble with its Roundup weedkiller.

The number of U.S. lawsuits claiming the product caused cancer rose in the most recent quarter by about 5,000, to 18,400. The company has denied a link between the substance and cancer.

● Under Armour said 2019 sales in North America will fall, depressing a stock that's already lost half its value this year.

● University of Guam researchers said a third of the island's coral reefs have died because of rising ocean temperatures.

● Harold Prince, who directed *The Phantom of the Opera*, Broadway's longest-running show, and won 21 Tonys, died at 91.

● Colombia's Egan Bernal was the youngest cyclist in 110 years—and the first Latin American—to win the Tour de France.

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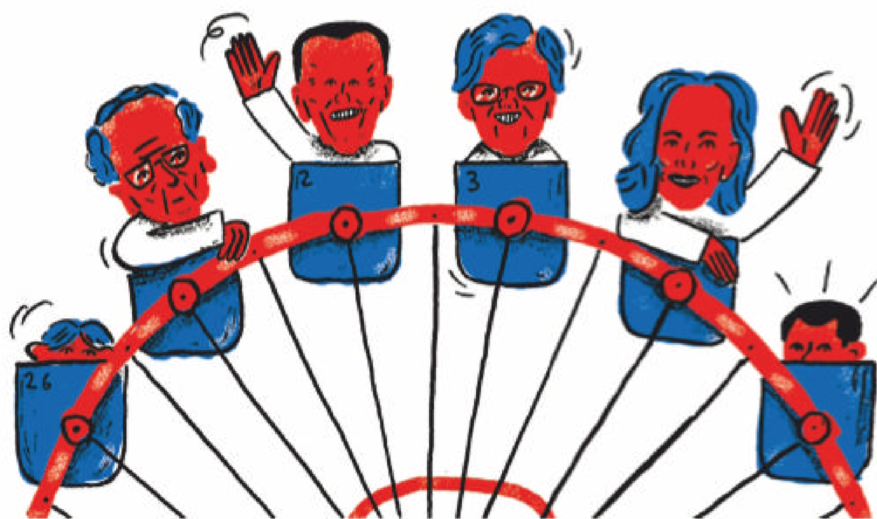

▶ Warmup for the Caucuses

The Iowa State Fair begins on Aug. 8 and will attract more than 20 candidates seeking the Democratic Party's presidential nomination as they try to promote their talking points. The state's caucuses in February are the traditional start of the presidential election season.

▶ Walt Disney reports its earnings on Aug. 6. Investors will look for more details on the Disney+ streaming service that launches in November.

▶ The Reserve Bank of Australia's policy meeting is scheduled for Aug. 6. Economists don't expect the bank to cut its 1% rate before the fourth quarter.

▶ China provides trade balance figures on Aug. 8, The dispute with the U.S. has weighed on exports. Imports shrank more than expected in June.

▶ Lyft posts earnings on Aug. 7. It's been a tumultuous ride for the car-hailing company, which has announced job cuts and executive departures.

▶ The African AGOA Forum, a gathering that seeks to foster trade between the U.S. and sub-Saharan Africa, will be held in Abidjan on Aug. 4-6.

▶ When it reports earnings on Aug. 7, commodities trading giant Glencore hopes to show it's bounced back from a disappointing start to the year.

■ BLOOMBERG OPINION

Countering Iran at Sea

● Safeguarding the world's most important shipping lane will require an international effort

European nations, alarmed by Iran's capture of a British oil tanker on July 19, are mounting a response to protect their commercial shipping in the Strait of Hormuz and Persian Gulf. The Royal navy has started to escort British ships, and a plan for a European naval mission has been endorsed by Denmark, France, and Italy. It's a promising start. But effectively curbing Iran's misbehavior and safeguarding ships in the region will require a more ambitious—and truly international—effort. Most important, it needs to involve the U.S. Navy.

The Europeans are wary of combining their fleets with a nearby American operation for fear of being identified with President Trump's "maximum pressure" campaign against Iran. France's foreign minister says a separate effort is needed to reduce tensions and "create the conditions for inclusive regional talks on maritime security."

This is both naive and shortsighted. A disjointed effort increases the likelihood of accidents and miscalculations. It might leave open gaps that could be exploited by the speedboats of the Islamic Revolutionary Guard Corps. And it creates unnecessary quandaries for ship captains: If, say, an American tanker with British nationals aboard were attacked while under U.S. Navy protection, would the *HMS Duncan* not respond to a call for assistance, for fear its intentions might be misconstrued by the Iranian regime?

Far better to present a united front. By fully joining their resources, the Americans and Europeans would be better able to police sea lanes and respond to provocations. In fact, they should be working together to recruit other countries—India, for instance—into a unified coalition, akin to the multinational task force formed to counter Somali pirates a decade ago. That effort, first headed by the U.S., drastically reduced attacks, helped strengthen local navies and coast guards, and safeguarded commercial traffic and humanitarian missions.

Mounting such a response in the Gulf may sound politically difficult. But Europe should remember that the capture of the British ship, the *Stena Impero*, had essentially nothing to do with the nuclear deal: It was retaliation for the British navy's seizure of a vessel carrying Iranian crude to Syria, in contravention of European Union sanctions. Iran should have contested the seizure through legal processes. Instead, it's holding the British ship hostage and demanding as ransom the release of its own tanker—and the freedom to keep sending oil to Syria in support of the dictator Bashar al-Assad.

It's another reminder of how Iran's misconduct threatens the entire region. In recent weeks, the regime has attacked ships and oil installations, shot down an American drone, restarted its uranium enrichment program, and even test-fired a ballistic missile, all while refusing good-faith efforts at mediation. The U.S. and Europe shouldn't give in to this kind of aggression. They should instead be united in opposing it. Ⓑ

Written by the Bloomberg Opinion editorial board

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STREAM
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All Over But The Streaming

● Media behemoths want to conquer a realm now dominated by the likes of Netflix. Think *The Hunger Games*

● By Felix Gillette and Gerry Smith

Anyone who wants to watch a dramatic, treacherous race in the months ahead should check out the escalating competition in the world of streaming video-on-demand TV. It promises to be the media industry's equivalent of the Badwater Ultramarathon, the annual spectacle in which a steely group of endurance athletes gather in the arid lowlands of California and race uphill on foot for 135 miles. In the summertime. In Death Valley.

By this time next year, AT&T's WarnerMedia division, Comcast's NBCUniversal, Walt Disney, and Apple will all have released sinewy new streaming video services, taking on the existing ones from Amazon.com, CBS, Hulu, and Netflix. It's unlikely that any of these media and tech giants will escape this looming showdown unscathed. Even the ultimate winners are expected to limp into the future bloodied and battered. Next year "is shaping up to be *The Hunger Games* for the streaming services," says Jamyn Edis, an adjunct associate professor at the New York University Stern School of Business.

The media conglomerates are trying to win on Netflix Inc.'s turf now because they don't have much choice. The success of Netflix's model—charging a monthly fee for a large amount of ad-free, on-demand programming that streams to any internet-connected device—has inspired millions of people to cancel their pay-TV service and get their home entertainment online. At the same time, the telecommunications and tech industries have watched Netflix and Amazon Prime Video harvest vast amounts of valuable consumer data from their viewers and decided that starting a successful streaming service might be a great way to sell more of their existing products—phones for Apple Inc., wireless contracts for AT&T Inc. The trick will be to persevere through the short-term hazards.

Consider the myriad pitfalls of the course ahead.

For decades, Disney, NBC, Time Warner, and other entertainment behemoths enjoyed a lucrative, straightforward business model. They packaged TV programs into channels, then sold them to consumers through cable and satellite distributors such as Comcast Corp. or DirecTV, which pass along recurring subscription fees even if few people are watching a particular channel. The networks collected billions of dollars from the advertising they served up during commercial breaks.

The streaming world, on the other hand, has proved largely inhospitable to commercial interruptions. Netflix and Amazon Prime Video don't have any. And both have toughed it out to dominate the market without needing advertising income. (Hulu LLC has a cheaper version of its service with limited commercials, but it's started capping their length to avoid upsetting viewers.) The new entrants have to master the art of attracting and retaining loyal streaming subscribers to survive in the long run. It won't be easy.

In the days before streaming, if a media conglomerate had a lull in one of its network's lineups, it was insulated from the resulting viewer apathy by big bundles of adjacent options. For example, a subscriber to Dish couldn't cancel the Food Network without also ditching CNN, ESPN, and TNT, among hundreds of others. Even the process of canceling was unappealing. It required the hassle of calling a customer service rep trained to bob and weave and wear down would-be turncoats with enticing counteroffers.

The dynamics of the new race are much less forgiving. The internet has made canceling streaming services easy. There are no calls, no resistant sales forces to overcome, no sacrificing of co-bundled products. To abandon one service in favor of another takes only a few clicks. As a result, a momentary dry spell in a streaming network's lineup can trigger an outbreak of sudden departures.

Brett Sappington, an analyst with Parks Associates, a market research and consulting company, says that though annual cancellation rates among traditional cable and satellite distributors hover around 4%, surveys of consumers show that churn rates at streaming services tend to be significantly higher. Netflix, which has the lowest turnover rate of any streaming service, still loses about 7% of its existing subscribers each year, he says. It goes up from there. "The newest services are the ones that have the highest churn," Sappington says.

Not bound by long-term contracts, streaming subscribers can easily be lured away. In surveys, Parks Associates found that 28% of consumers said they have subscribed to a streaming service to check out just a single title.

To retain subscribers and entice those of their rivals, the services will have to strive to stock both popular reruns and fresh batches of original programming, which will be hugely expensive. In preparation, the competitors are taking some drastic measures.

Recently, Walt Disney Co.—the company with arguably the deepest, richest library of beloved characters and shows on the planet—decided its programming stockpile still wasn't robust enough and paid $71 billion for the bulk of 21st Century Fox. Earlier this year, Disney agreed to pay at least $5.8 billion to Comcast to take over full control of Hulu. CBS Corp. has introduced several original series exclusively for its online channel, CBS All Access. These include ▶

ILLUSTRATION BY SCOTT GELBER

◀ *Star Trek: Discovery*, which costs $8 million on average per episode, making it one of the most expensive shows in TV history, according to *Variety*.

In search of a universally irresistible attraction, Amazon.com Inc. acquired the rights to make a TV series based on *The Lord of the Rings*, paying some $250 million before a single script has been written, an actor hired, or a bucolic hamlet commandeered. WarnerMedia is developing a sumptuous *Game of Thrones* prequel for HBO. Apple has enlisted TV help from Steven Spielberg and Oprah. In April, Disney said it plans to spend more than $1 billion on original programming in fiscal 2020 for Disney+, which is scheduled to begin in November. The company doesn't expect the service to turn a profit until 2024.

At the same time, Netflix has been expanding the scope of the race by investing heavily in video infrastructure, production, and talent in Africa, Asia, Europe, and Latin America. While amassing more than 150 million subscribers globally, the company has also been locking down Hollywood talent, signing proven performers and show creators to exorbitantly high-priced, multiyear deals ($300 million for showrunner Ryan Murphy), and daring competitors to keep up. Many maneuvers are double-edged. Netflix has paid Chris Rock $40 million for a pair of performances, simultaneously wooing comedy fans to subscribe while also sticking a knife in the tire of its rival HBO, where Rock was long the face of stand-up comedy.

"Netflix is very far ahead of the game with so much popular content and a brand name and a position in people's lives," says Tim Nollen, an analyst at Macquarie Group. "If there's any one traditional media company that can compete with Netflix, it's Disney. They have consumer awareness and content that people will pay for. That doesn't mean Disney wins and Netflix loses. It means that Disney is one of the few that can successfully play that same game."

The costs of entering the streaming race are no less daunting. For years the traditional media companies were able to lessen the blow of declining DVD sales and rentals, in part, by leasing their shows to Netflix and Amazon. Now the days of raking in this easy money are winding down, as media companies buy back the streaming rights to their classic shows and movies. AT&T is paying $85 million a year for the exclusive rights to *Friends*, which will stream on its HBO Max service. NBC has agreed to spend $100 million a year for the rights to *The Office*. The popular reruns of both shows have been streaming on Netflix.

Standing out from the pack of competitors won't be easy. Last year, Netflix spent $2.4 billion on marketing—that's roughly HBO's entire programming budget for 2017. Over the years, Netflix has tried every kind of gimmick to get attention. It's bought a pricey Super Bowl ad, paid for myriad billboards along the Sunset Strip in Hollywood, distributed stickers depicting rolled-up dollar bills and faux lines of cocaine in public bathrooms nationwide to promote the show *Narcos*, planned a print magazine, created "smart" socks designed to pause viewers' TV if they fall asleep in the middle of a show, and deployed a bunch of *Stranger Things*-branded pedicabs to ride through New York blasting '80s music.

Expect the din to grow louder. "If you're Disney, you can put a flyer in every hotel room in every park at all of your properties and resorts," Sappington says. "If you're AT&T, you have all of your communication and wireless platforms. That's going to be a big part of it. How are you going to make noise for yourself in a crowded market?"

The maintenance costs will also be hefty. Going direct-to-consumer will require the media giants to handle all sorts of messy tasks such as customer service and billing that they have long relegated to their distribution partners. They'll also need to hire legions of technology experts, including data scientists, software engineers, and product designers, to build and maintain their streaming platforms. None of which is cheap. Just ask Disney, which has spent about $2.6 billion acquiring a majority ownership of BAMTech, a company specializing in streaming technology.

Some media companies have sized up the frightening terrain and decided to sit this one out. In 2018 an analyst at Goldman Sachs Group Inc.'s annual Communacopia Conference asked Bob Bakish, chief executive officer of Viacom Inc.—which owns a slate of youth-oriented TV networks including Comedy Central, MTV, and Nickelodeon—about his company's plans to enter the direct-to-consumer space. Bakish was not bullish. "What we're not doing is developing a mass-market, [subscription video-on-demand] service, like Netflix," Bakish said. "And the reason for that is twofold. One is that that business is looking more and more crowded. And the second thing is it's a very capital-intensive game." Translation: Have fun with your cannonball run. We'll be happy to make deals with whomever eventually survives.

Others have been scared off as well. For years, executives at IAC/InterActive Corp., the New York-based media conglomerate, said its video platform Vimeo was going to introduce a subscription video-on-demand service offering a slate of original programming similar to Netflix. But then in 2017, after a prolonged reconnaissance mission, the company announced it was backing out. Recently, IAC Chairman Barry Diller described Netflix as essentially unbeatable. "No one's going to compete with Netflix in terms of gross subscribers," Diller told CNBC in July. "I believe they have won the game."

In truth, the race is just getting started, and the treachery of the landscape is such that even Netflix is not safe from painful stumbles. Earlier this year the company raised its prices, in part, to help pay for its massive investments in programming, which reached $12 billion in 2018. The price hike did not go unpunished. In July, Netflix disclosed that during the second quarter it had suffered a net loss of U.S. subscribers for the first time in eight years. Shares plunged, erasing more than $24 billion from its market value over the next six days.

As peak TV ventures into the arid valley ahead, expect to see plenty more moments of distress. Bon voyage, streaming service executives. Please hydrate accordingly. Ⓑ

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It's a Man's World

A modeling agency linked to Jeffrey Epstein is just one of the chain's worries

Time isn't being kind to Victoria's Secret. The lingerie retailer has a problem with the past and a problem with the future—and that leaves the present in a muddle of controversy.

Jeffrey Epstein is supposed to be history at the company—and at its parent, L Brands Inc., for that matter—but he's that skeleton that keeps rattling around the closet to remind everyone he was once an all-too-lively part of the business. Epstein had a two-decade-long reign as close confidant, financial manager, and right hand to the corporation's chief executive officer, Leslie Wexner. He even had the CEO's power of attorney at one time.

Although he wasn't an employee at Victoria's Secret, Epstein also influenced the way the lingerie company operated, associating with the division's chief marketing officer, Ed Razek. In 2005, for example, Razek was a guest at Epstein's Manhattan mansion, welcomed by young women who said they were working as models for Epstein. Razek told fellow guest William Mook, head of Mok Industries LLC in Columbus, Ohio, that Victoria's Secret used Epstein models and that his girls were in "the major league," according to Mook.

Epstein's relationship with Wexner and L Brands officially ended in 2007, a year and a half after the financier was charged with several counts of sexual misconduct in Florida. He pleaded guilty to one charge and spent just 13 months in prison with work-release privileges. That penalty was widely derided as exceedingly lenient and, after sex trafficking charges against Epstein were resurrected in July, fresh outrage over the 2007 plea deal led to the resignation of U.S. Labor Secretary Alex Acosta, who'd been the U.S. attorney in Miami in charge of the prosecution. Epstein now sits in a Manhattan jail awaiting trial—and perhaps more revelations of salacious secrets. On July 23 he was found injured in his cell and put on suicide watch.

L Brands' efforts to distance itself from Epstein may not have been all that clean a break. Epstein at one point had a $1 million investment in MC2 Model Management, according to a sworn deposition by a former company bookkeeper. MC2 is owned by Jean-Luc Brunel, a Frenchman who's alleged in a civil lawsuit to have brought girls as young as 12 to the U.S. for sexual purposes and provided them to Epstein and other friends. Brunel even visited Epstein when he was first imprisoned in 2008. Victoria's Secret continued to work with MC2-represented models after Wexner severed ties with Epstein. At least three MC2 models walked in its 2015 fashion show, and

Edited by James E. Ellis and Dimitra Kessenides

the agency's models were at auditions in 2017 and 2018. They've also posed for its catalogs and website. In a 2014 letter to Brunel, his business partner, MC2 President Jeff Fuller cited worries by Saks, Nordstrom, Macy's, and other clients about Brunel's friendship with Epstein. There was no mention of concern on the part of Victoria's Secret.

MC2 didn't respond to a request for comment. A representative of L Brands declined to comment beyond statements already issued. L Brands has hired an external law firm to probe any ties between the company and Epstein.

Epstein is the ghost of Victoria's Secret's past. But the company has more to worry about than history. Its business model is increasingly at odds with society's changing definition of beauty and the #MeToo movement, both of which have encouraged a very different vision of how to portray women and their bodies. This isn't just an exercise in political correctness: Since 2015, Wexner's lingerie empire has lost $20 billion in market value, raising the question of whether a male-dominated company that trumpets women as lingerie-clad "angels" may be out of step with today's consumer.

The chain's founder, Roy Raymond, came up with the idea of a women's lingerie store aimed at men after an unfulfilling experience at a department store buying his wife some lingerie in the 1970s. He felt there should be a place where men would be comfortable shopping for women's underwear. He opened the first Victoria's Secret in 1977. Wexner, already owner of retailers Limited, Lane Bryant, and Express, bought the company for $1 million in 1982. Through savvy marketing under Wexner, the brand sold directly to women who wanted to look sexy in pushup bras and panties.

As the brand grew, it still provided plenty of eye candy for men—especially in its glittery annual fashion show, which became a marketing coup and a much-anticipated event for the men who flocked to it. The first—staged at New York's Plaza Hotel in 1995, the same year real estate developer Donald Trump was forced to sell the legendary hostelry to avoid bankruptcy—included model Stephanie Seymour gliding down the catwalk. Models wore white and black bras and underwear, but not the large white angel wings that models in subsequent shows would make famous. Over the years the extravaganza grew with more lights and pop stars. Supermodels such as Gisele Bündchen and Tyra Banks graced the stage. As such, it cast a sex-infused spotlight on a utilitarian product our grandmothers used to purchase from the Sears catalog.

Plenty of clothing retailers have used sex to sell. American Apparel's ads of pouty-faced young women in suggestive poses often had the look of soft porn. And Abercrombie & Fitch's now-defunct "magalog," *A&F Quarterly*, was notorious for including nude models and racy content such as its 2003 discussion on the pleasures of group sex.

But few retailers have fused themselves to the notion of sexiness more than Victoria's Secret, which has spent countless hours making sure the outside world gets that message. Wexner has never shown a lot of personal interest in the models for his brand, according to a former executive. That task falls to Razek, who's worked for Wexner since the 1980s and is part of his inner circle. The 71-year-old marketing chief and his team decide which models earn angel wings. *GQ* has called him one of the most important people in the modeling industry.

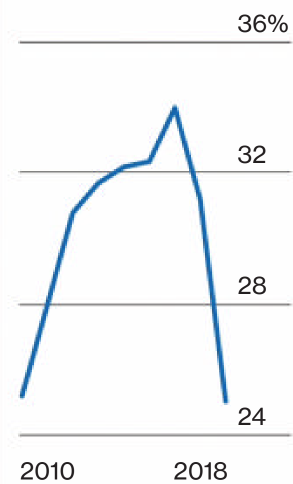
Between tapings of the 2011 fashion show, for instance, the Victoria's Secret angels would crowd around Razek as if he were a coach giving a locker room pep talk before the big game. In a speech that year to his assembled models, which included Adriana Lima and Alessandra Ambrosio, Razek said their job is the "most impossible job in the world, literally in the history of the world. In the history of the world, as of this show, only 165 women have ever been in this show," he said to the dozens of women present. "There have only been 140 pairs of wings in the entire history of this show. That means each of you, every one of you, because there are 7 billion people on the planet. Each of you is one in 45 million human beings. Let's start with that."

But like fashion, times change. Abercrombie in late 2014 parted ways with longtime CEO Mike Jeffries, who once famously told *Salon* magazine that his chain refused to carry women's clothing larger than a size 10 "because good-looking people attract other good-looking people, and we want to market to cool, good-looking people. We don't market to anyone other than that." The chain has also dropped its highly sexualized marketing. American Apparel founder Dov Charney was ousted in 2014 after allegations of sexual harassment, and the company later filed for bankruptcy.

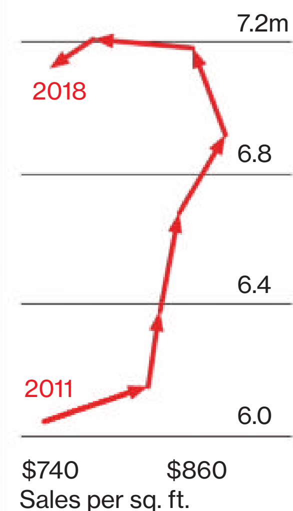
Likewise, fashion companies are increasingly embracing a broader definition of beauty. Younger designers such as Christian Siriano and Becca McCharen-Tran have added plus-size fashions and models to their shows. But Victoria's Secret hasn't strayed much from its uniformly tall, thin angels. Last November, Razek told *Vogue* that, after consideration, he'd decided not to use transgender models in his shows. "Well, why not? Because the show is a fantasy," he said, sparking some outraged celebrities and customers to call for his resignation.

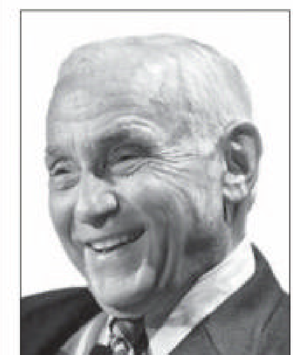
Some in the industry say such tone-deafness ▶

● Victoria's Secret U.S. market share in women's underwear



● Victoria's Secret total selling square footage





● Wexner

PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (2). WEXNER: FRED SQUILLANTE/THE COLUMBUS DISPATCH/AP PHOTO. DATA: L BRANDS; EUROMONITOR INTERNATIONAL

◀ may be a result of the 2016 departure of Victoria's Secret's longtime CEO, Sharen Jester Turney, who'd guided the brand for a decade while managing to convince many consumers that its celebration of the feminine body was a form of female empowerment. Turney left because she didn't agree with the direction Wexner wanted to take the business, according to a person familiar with their conversations. "With her gone, the men really just took over," says one former executive. "And these were men who had one ideal of women, and it's not based in reality."

Jan Singer, who replaced Turney, left last year soon after Razek made comments some plus-size models and the transgender community found demeaning. Singer was replaced by a man, leaving L Brands with only two women among the 10 listed executive officers and brand leaders. At the urging of activist investor Barington Capital Group, L Brands this spring added two more women to its board.

The failure to embrace changing norms about women and beauty may already be having an impact on Victoria's Secret's results. After rising steadily since 2010, sales fell to $7.4 billion in fiscal 2017—the first drop in seven years—and edged slightly lower again last year. Sales at stores open for more than 12 months, a closely watched metric in retailing, also slipped in 2018, with operating income at the unit tumbling 45%, to $512.4 million.

Those poor results have led L Brands to tighten its purse strings, resulting in the shuttering of dozens of underperforming locations. L Brands announced in February plans to close about 53 Victoria's Secrets in North America this year, more than three times the 15 it's historically closed in an average year. "Given the decline in performance at Victoria's Secret, we have substantially pulled back on capital investment in that business," L Brands executives said in prepared commentary in May after reporting a further 5% drop in same-store sales in 2019's first quarter.

Another notable change: In May, Victoria's Secret pulled its fashion show from network television after 23 years. Ratings bottomed out in 2018, with only 3.3 million viewers, down from the previous all-time low of 5 million the year prior. The annual show is expected to move to streaming.

There may be limits to just how much Victoria's Secret can change its messaging. American Eagle Outfitters Inc.'s rival Aerie line has found a base of passionate customers who are younger and more diverse and are calling for brands to have body-inclusive messages. That's helped Aerie log 18 consecutive quarters of double-digit same-store sales. One advantage is that Aerie doesn't have 40 years of branding to overcome. "There's been very interesting growth in consumers embracing this more holistic body-image view, but it's probably too far of a step away from what the DNA of Victoria's Secret is," says Alex Arnold, a managing director of the consumer practice at investment bank Odeon Capital Group LLC. "It would be a wholesale repositioning of the company." *—Kim Bhasin, Jordyn Holman, Sophie Alexander, and Anders Melin*

THE BOTTOM LINE Victoria's Secret long prospered by promoting its sexy lingerie. But changing norms about women and beauty could put that growth at risk.

Selling the Rainforest Door-to-Door

● By acquiring Avon, Brazil's Natura plans to turn its army of direct salespeople into online influencers

On a pleasant Tuesday in May, dozens of beauty influencers gathered at the New York Botanical Garden in the Bronx for a vegan lunch and a panel on sustainability in cosmetics. As they sipped passion fruit caipirinhas, the young women snapped photos of lotions and soaps featuring exotic ingredients such as *murumuru* and *priprioca*.

They're the types of products that made host Natura Cosmeticos SA a beauty giant in Brazil—and that the 50-year-old company wants to bring to the rest of the world. With its agreement in May to buy Avon Products Inc., Natura is accelerating its global ambitions and betting its brand of natural, ethically sourced cosmetics will appeal to millennial and Generation Z consumers who increasingly want sustainable goods.

"In other markets, you see the movement of beauty going into wellness. In Brazil it started the other way around"

The company wants to attract social media enthusiasts such as Ava Lee, a New Yorker who was at the Bronx event. "I love that all Natura Brasil products are clean and sustainable," says Lee—@glowwithava on Instagram—who often posts photos of cosmetics for her almost 24,000 followers. "It's hard to come by products that smell this good and at the same time are very gentle on the skin and don't cause irritations."

Natura's $2 billion purchase of Avon—the very company it had long emulated with its door-to-door direct-selling model—will make it the world's fourth-biggest cosmetics company and among the largest focused on natural products. About 80%

of its products are vegan. The challenge will be staying loyal to its sustainable roots as it rapidly grows. Executive Chairman Roberto de Oliveira Marques says the "value propositions that are the very essence of Natura" are appealing to consumers, particularly millennials, who look for "authenticity" in products and the companies that make them.

Purpose-driven brands resonate more with young consumers, according to researcher Euromonitor International. About 60% of millennials responding to a lifestyle survey said they felt they could make a difference in the world through their choices and actions, compared with about 45% of baby boomers.

Founded in 1969 as a store in São Paulo, Natura soon moved to direct sales, adding 2,000 consultants over the next decade. Novelties, such as offering product refills in the 1980s and a line of soaps and creams that could be used by both new moms and babies in the 1990s, fed steady sales growth in a country obsessed with good looks. But though Brazilians are leaders in plastic surgery and popularized the infamous Brazilian wax, the national concept of beauty is more natural—think of model Gisele Bündchen, with her signature loose hair.

"Natura's broader portfolio, more focused on wellness as opposed to only beauty, puts it in a unique position to expand abroad," says David Marcotte, a retail analyst with Kantar Consulting. "In other markets, you see the movement of beauty going into wellness. In Brazil it started the other way around. That's the grounding for their success."

Natura gets 30% of its revenue outside Brazil. The company began widening its scope in the past decade, buying a controlling stake in Australian luxury skin-care brand Aesop in 2013 and British soap maker the Body Shop in 2017. It's taken steps to bring its sustainable ethos to those brands. Natura brought the Body Shop's marketing back to the cruelty-free cause that jump-started the brand in the 1970s. It's also taken the fair-trade model it uses to procure its ingredients from the Amazon and expanded it to the African communities that provide *moringa* oil to the Body Shop. At Aesop, packaging changes will reduce plastic consumption by 124 tons per year.

It's unclear how much Natura will transform Avon, whose sales plunged by half over the past 10 years, to $5.25 billion, in fiscal 2018 amid competition from trendier brands. The company had given up on the U.S., selling the last of its stake in the American operations earlier this year, to focus on international markets. But it's still struggled to adapt to changing consumer tastes.

The Avon acquisition will give the Brazilian company access to 27 new markets—including in China and Eastern Europe—as well as greatly expand the direct-sales model, which Natura says it can modernize and diversify. Marques plans to turn the combined companies' army of 6 million direct sellers into social media sellers and influencers—who increasingly drive millennials' cosmetics purchases. Natura is also giving door-to-door associates payment machines and helping them open web stores. "This powerful sales network that gets into consumers' homes already existed offline, and now it's converting itself into an online network," Marques says.

That's in line with industry trends. Elton Morimitsu, a Euromonitor analyst, says several brands are "abandoning the use of influencers with millions of followers," he says. "They're betting instead on microinfluencers with several thousands of followers, because the conversion rate into sales that the brand will have will be much higher."

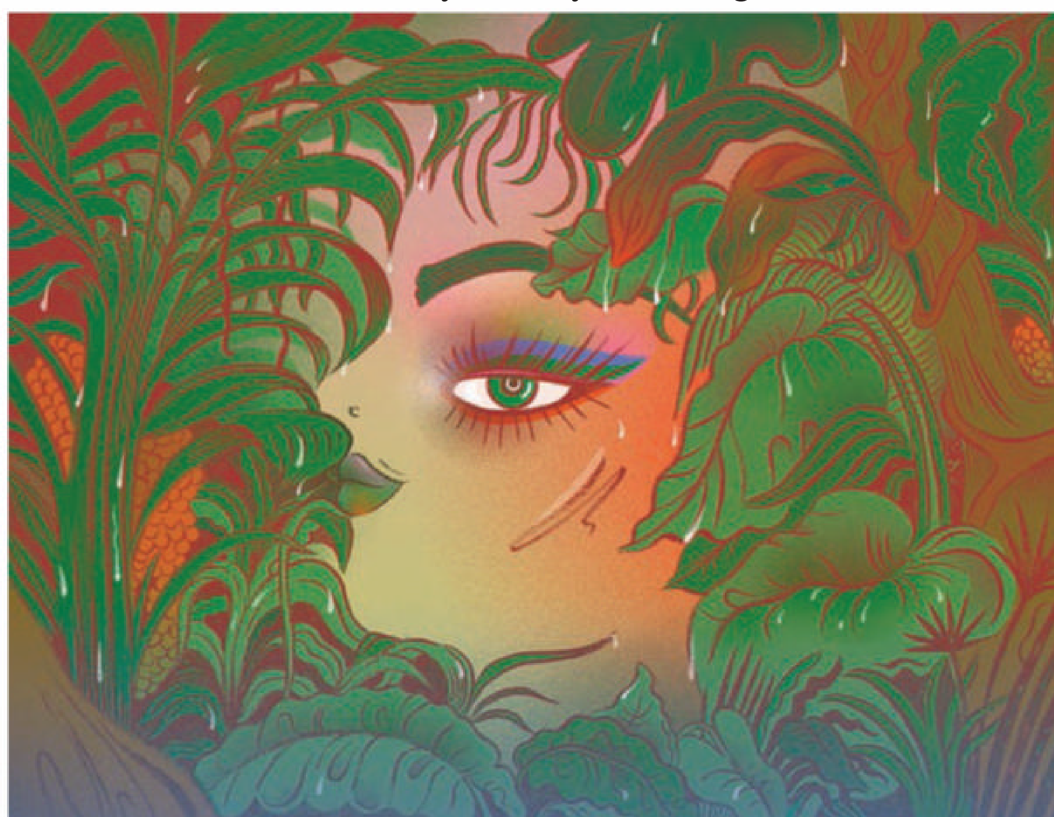


ILLUSTRATION: CYNTHIA KITTLER

● Number of direct-sales associates Natura will have after its purchase of Avon

6m

Natura doesn't sell only through its consultants; it's made several brands available in drugstores, cut deals to sell others at big retailers, and opened 52 proprietary stores, mostly in Brazil, to showcase its goods. It also has its own virtual store and is using the network of Body Shop franchisees in Southeast Asia to open Natura locations there. It has opened two stores in the New York area, but has no plans to expand quickly in the U.S., Marques says. Until that changes, American consumers need to rely on online shopping and influencers such as Ana Kcira, whose @fashionstylefoodie on Instagram has about 45,000 followers. She posted a photo of herself spraying Natura's *pataua* oil, a hair strengthener, on a friend's braid in Central Park—which generated almost 700 likes. *—Fabiola Moura, with Tiffany Kary*

THE BOTTOM LINE Natura's natural, ethically sourced cosmetics have been a hit at home in Brazil. It's aiming for similar success globally, as younger consumers lean toward purpose-driven brands.

Got Oats?

● Oatly, a Swedish maker of a plant-based milk, wants you to rethink your morning coffee

The spring of 2018 was a bad time for baristas across the U.S. The year's great oat milk shortage had hit its nadir, sending caffeine addicts out the door of their favorite cafes in search of any place that could satisfy their fix.

The die-hards "are very particular," says Naomi Morales, manager of the Upper East Side location of New York City chain Jack's Stir Brew. They like the creaminess of oat milk—made by blending oats with water, adding enzymes, cooking the mix, then removing the fibers—and claim it has a similar mouthfeel to cow's milk, but without all the animal welfare and environmental concerns. Almond milk, too cloyingly sweet, wouldn't cut it. Soy milk was passé.

Fifteen months later, the dark days have brightened—for baristas, coffee lovers, and especially Oatly AB. In April, the Swedish company widely credited with creating the category opened a $15 million processing plant in Millville, N.J.—the first outside Europe. The factory produces about 750,000 gallons of oat base—a thick, lightly

▼ Oatly's plant in New Jersey

PHOTOGRAPHS BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK (2)

sweet liquid that's the main ingredient in all Oatly products—on a monthly basis, according to the company. (It won't disclose total volume.)

Since the factory's opening, stories of $200 12-packs selling on Amazon have subsided. Many Americans can now pick up a half-gallon at the corner grocery store. And though Oatly encouraged coffee shops to stock rival brands during the shortage—better to keep training customers to order oat milk, it smartly figured—it's now available in about 7,000 cafes and grocery stores nationally.

Retail sales of oat milk in the U.S. have risen to $29 million, up from $4.4 million in 2017. Several companies are going after a piece of the market. PepsiCo Inc.'s Quaker Oats launched an oat drink in January, and plant-based-beverage maker Califia Farms introduced a variety in February. Even so, Oatly is the brand sought out by many hipsters and coffee snobs from coast to coast. "We knew that we would do well," Chief Executive Officer Toni Petersson says of Oatly's move into the U.S. in 2017. "But we weren't quite prepared for this level."

Its popularity echoes other plant-based products' journey into the mainstream, with diners, even meat-eating ones, increasingly asking for Beyond Meat or Impossible Foods patties by name. Rising demand has forced these companies to quickly figure out how to mass-manufacture products made with ingredients that often aren't widely available.

Oatly employs the same proprietary, "very hard to copy" process in the 25,000-square-foot New Jersey factory that it does in Landskrona, Sweden—it won't share many details, since it's proprietary. "The process is very sensitive," says Anca Gavris, the Millville plant manager and its first employee. "Everything needs to be to perfection."

The oats used to make the milks—there are full-fat, low-fat, and chocolate versions as well as a barista variant—are sourced from farms in Canada. Oatly makes just the oat base in Millville; it partners with other facilities to turn the base into various products.

The company plans to open another U.S. facility, in Ogden, Utah, to serve customers on the West Coast, in the first quarter of 2020. It will have three times the capacity of Millville, Petersson says. "Will that be enough to meet demand?" he asks. "No."

Oatly's sales were about $110 million in 2018, up from $68 million a year earlier, Petersson says. He expects double that, about $230 million, for 2019. The company's success is closely tied to its marketing. Petersson embarked on a rebranding campaign after he joined the company in 2012. At the time, Oatly wasn't attracting mainstream attention. It had no presence in the U.S.—the products were relegated to shelves filled with foods for people with allergies. That changed when Petersson hired a friend, John Schoolcraft, as creative director, to help with the campaign. Schoolcraft had worked with other iconic Scandinavian companies, including Ikea and Carlsberg.

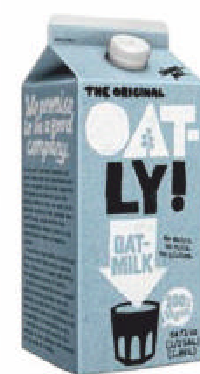
▲ Testing product samples

A series of ads were launched in Sweden, poking fun at the dairy industry with slogans like "Wow no cow" and "Like milk, but made for humans." They got the attention of the Swedish dairy industry, which sued Oatly for suggesting that cow's milk wasn't made for humans. In November 2015 a court in Stockholm issued a verdict, prohibiting Oatly from suggesting outright or even implying that dairy milk is harmful in any way and limiting what the company can call its products. In Sweden, Oatly can't call the beverage milk.

The company recently rolled out a new product to New York bodegas, as well as Wegmans stores and FreshDirect—an "ice cr— nondairy frozen dessert," says Oatly U.S. general manager Mike Messersmith, quickly correcting himself.

A U.S. ad campaign includes posters on high-traffic, low-cost surfaces—like the fronts and backs of New York buses, transit stops, and train platforms—with self-deprecating slogans such as "You actually read this? Total success." Messersmith says the "irreverent introduction" was timed to coincide with the company's increased production capacity, as a way to raise brand awareness without proselytizing. "We wanted people to notice and be like, 'Huh.'" —*Deena Shanker and Niclas Rolander*

THE BOTTOM LINE Sweden's Oatly, whose oat milk has the coffee-mad hipster seal of approval, has almost single-handedly created a booming alternative milk category.



● Oatly's estimated 2019 sales

$230m

2

TECHNOLOGY

Raising Venture Capital—and Standards

Sequoia Capital's Jess Lee knows how to close a deal. But many women in the industry still face challenges

Edited by
Jeff Muskus
and Max Chafkin

In 2017, shortly after becoming a venture capitalist, Jess Lee attended a startup conference in Los Angeles. Her badge identified her employer as Sequoia Capital, an Apple Inc. and Google backer that was gearing up to raise more than $12 billion in several new funds. Under most circumstances, that'd be enough to get a VC mobbed, but the crowd largely ignored Lee, the first female investing partner at Silicon Valley's most prestigious firm. "No one was even looking at my name tag," she recalls. In lieu of standing around, she retreated to the bathroom for a while to answer emails on her phone.

Lee's experience underscores the sexism that runs through much of the clubby tech industry. It also showed her that "this classic networking method of getting deal flow is probably not going to work for me." To succeed in venture capital as a youngish Asian woman, she'd need her own approach, one that took her uphill battle into account. "If you are underestimated, you can use that to your advantage," she says.

Just 11% of American venture investors are women, and Sequoia hadn't had a female partner in the U.S. since it was founded in 1972. (The firm's Chinese funds had employed women partners.) In 2015, Mike Moritz, the firm's best-known partner, brushed off a question about the possibility of hiring a woman by implying that none were qualified. "What we're not prepared to do is lower our standards," he told Bloomberg TV. He clarified that there were "many remarkable women" candidates, but Sequoia wound up back in the news a few months later when an exotic dancer sued one of his colleagues. The dancer said that Michael Goguen, a Sequoia partner for two decades, had been paying millions of dollars to hush an extramarital affair. Goguen denied the allegations and countersued; Sequoia severed all ties to him. Lee, who was already being recruited, joined the following year.

Lee declined to comment on Goguen's exit or Moritz's remarks, but she notes that Sequoia has backed dozens of women founders over the years. She says the firm has also gone to great lengths to ensure she succeeds. Like all new partners, she was invited to board meetings at portfolio companies and given an official mentor. She has a standing Monday appointment with Bryan Schreier, the partner who backed file-sharing service Dropbox, to decipher Sequoia's weekly partners meetings and brainstorm ways to help the six portfolio companies on whose boards Lee serves.

Lee led her first investment, in yardwork app Setter, in 2017 and followed up with bets on businesses including Wonolo (staffing), Ironclad (legal services), and Maven (women's health). The first deal she lost out on was a proposed investment in fitness app Mirror. Two people familiar with the negotiation say a more experienced Sequoia partner began talks with the company, then passed the deal to Lee, who, like Mirror founder Brynn Jinnett Putnam, is a woman in her 30s. These sources say Putnam saw the move as a bait-and-switch by Sequoia and returned to her existing investor, Spark Capital's Kevin Thau, for an additional $25 million. A Mirror spokeswoman says the company chose Thau "for a number of different reasons."

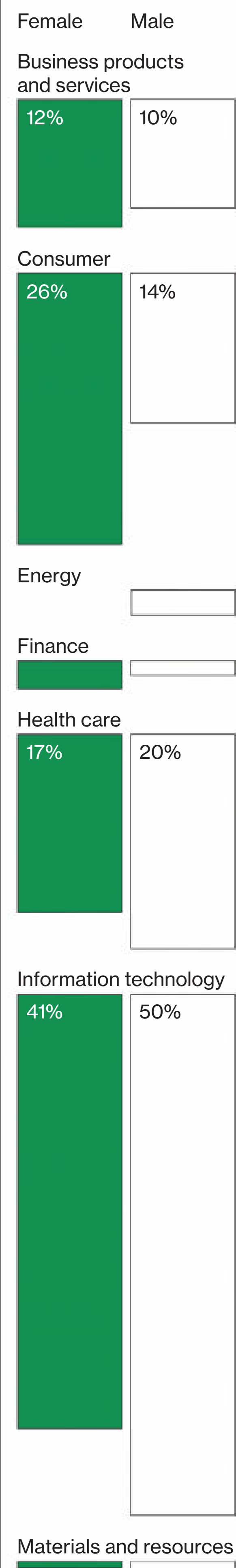
Since then, Lee says, she's leaned more on team members to close a deal instead of "trying to do it alone." Late last year she brought Moritz to New York to deliver a term sheet to founders of the Wing, the women's social club and co-working space, resulting in a $75 million round of funding.

Lee's situation is grounded in a rarely acknowledged reality for women in tech. Despite paying lip service to a rising sisterhood, women investors will sometimes try to avoid women founders, and vice versa. As a woman, says longtime angel investor Magdalena Yesil, who's funded many women-led companies, "you are already the outsider" and might worry about drawing unwanted attention to gender by teaming up with "yet another female."

That stigma is fading as Sequoia and other firms grapple with how to represent women in a more meaningful way. That started, by most accounts, with an unsuccessful lawsuit filed in 2012 by Kleiner Perkins partner Ellen Pao. While the suit failed, it made firms more sensitive to gender discrimination.

Today, VCs are less likely to blame the "pipeline problem," saying firms have to work harder to seek out female founders. They're also less likely to take a "one and done" approach to hiring a senior woman. Along with Lee, Sequoia has added three more women as U.S. partners.

"On all my deals now, there's at least one other woman investor, sometimes more," says Trae Vasallo, a longtime partner at Kleiner Perkins who launched her own firm, Defy, in 2016. "That's never been the case before." Vasallo says groups such as AllRaise, a two-year-old diversity nonprofit in which Lee is active, have also helped encourage collaboration among women in the field. The group's stated goal is to increase the share of female venture partners to 18% within 10 years and raise the proportion of funding going ▶



PHOTOGRAPH BY ULYSSES ORTEGA FOR BLOOMBERG BUSINESSWEEK. DATA: PITCHBOOK

◀ to companies with a female founder from 15% to 25% within five years. AllRaise says it's arranged 20 introductions between startups and investors that led to around 50 checks for startups, two of them funded by Lee.

Raised in Hong Kong, Lee studied computer science at Stanford, then worked at Google. In 2008 she joined Polyvore, a media startup focused on fashion, eventually becoming chief executive officer in 2012. "It would have been a different company, and most likely not as successful" without Lee, says Polyvore co-founder Jianing Hu. Colleagues admired Lee for the lengths she went to in recruiting. She once answered an engineer's comment that he was "on the fence" about joining Polyvore with a gift of a chain-link fence from Home Depot. "I'm a big fan of the over-the-top close," she says. Yahoo! bought Polyvore in 2015 for $230 million.

Shortly after Verizon Communications Inc. announced it was acquiring Yahoo in 2016, Lee agreed to meet Jim Goetz, the Sequoia partner who'd backed messaging service WhatsApp, at a Mountain View cafe. When she showed up, she tried not to stare at two customers at a nearby table dressed head-to-toe as characters from *Toy Story*. After a few minutes, Woody and Buzz Lightyear held up a watercolor of the cowgirl character, Jess, and other toys from the movie. Words beneath read: "Will you join US on a new VENTURE?" The toys then removed their headpieces: Woody was Goetz; Buzz was Roelof Botha, who'd backed Instagram and payment company Square. Lee, a cosplay aficionado, was impressed, and charmed by the idea that she'd found kindred spirits. "It meant that I could bring my whole self" to work, she says.

That doesn't mean Lee will succeed. It'll be hard to tell for at least another two years how much promise her companies show and how much credit she's due. For now, she's making progress in other ways. During a recent San Francisco party of startup founders and investors, she deftly broke into a mostly male cluster of older guests. With a beer in hand and a twentysomething female founder in tow, Lee unapologetically steered the conversation to talk up the woman's accomplishments. Sure the conversation was on track, she excused herself. Then, instead of opting for the restroom and her email, she headed back into the crowd. —*Sarah McBride and Lizette Chapman*

THE BOTTOM LINE Jess Lee has built a strong early record of investments at Sequoia but still faces discrimination from peers and startup founders in ways that are both subtle and obvious.

Climate Changed

The empress holds the Guinness World Records mark for fastest growth; it reaches maturity in 7 to 10 years, vs. several decades for a pine or oak tree

The Carbon Capture Tree

To help battle global warming, companies around the world are expected to spend billions of dollars over the next decade building devices aimed at sucking carbon from the atmosphere. The thing is, Mother Nature already made one. While each acre of most tree species can capture and store 1.1 to 9.5 metric tons of carbon dioxide a year, an acre of empress trees can absorb 103. "The tree has a very *Jack and the Beanstalk* energy to it," says Wendy Burton, whose 15-year-old Mesa, Ariz.-based timber company, World Tree, has planted more than 1,000 acres of empress.

Once the trees reach maturity, farmers harvest their wood for use in houses or musical instruments. World Tree investors share in the profits. The trees can regrow easily from the stumps after they've been harvested. Says Cathy Key, the company's chief operating officer: "It's a tree that grows like grass." —*Emily Chasan*

An empress can grow 10 to 20 feet tall in its first year, which helps it store carbon more efficiently than other tree species

World Tree relies on farmers around the world to plant the trees

Each acre of empress trees is equivalent to about 80 passenger vehicles being taken off the road for a year

PHOTOGRAPHS BY CHUCK HEMARD FOR BLOOMBERG BUSINESSWEEK

3

FINANCE

A Scandal Rattles South Africa's $150 Billion Fund Manager

The state-owned Public Investment Corp. faces allegations of political interference

Africa's largest fund manager used to be a success story. Owned by the South African state, the Public Investment Corp. runs money for public institutions including the government-worker pension fund covering more than 1 million people. It increased its assets under management sixfold in 15 years, to about 2.1 trillion rand ($148 billion). It's a major player in the Johannesburg stock market and has wielded its power to curb executive pay at companies, make or break takeovers, and drive the government agenda of boosting black participation in the economy.

Now the 108-year-old asset manager's existence—at least in its current form—is under threat. A series of scandals and allegations of political interference in investment decisions have been exposed by a judicial commission of inquiry created by South African President Cyril Ramaphosa. The PIC also holds a fifth of the debt of troubled state-owned power utility Eskom Holdings SOC Ltd.

The PIC's management is in upheaval. The chief executive officer of four years left in November, and his replacement was suspended in March for allegedly interfering with the commission's investigation. The head of publicly listed investments was suspended over one of the deals undertaken by the

Edited by Pat Regnier

fund. Both of the suspended executives have denied wrongdoing. The PIC's board resigned in February after allegations of wrongdoing were made by an anonymous whistleblower against some members, who weren't named in the board's letter of resignation. An interim board was put in place only this July.

At stake is not only the performance of the PIC's funds but the financial health of the South African government. Ninety percent of the money the PIC runs comes from the Government Employees Pension Fund. The GEPF's payouts are guaranteed by the government and therefore by the South African taxpayer. If the government had to take these over, it would place yet another fiscal burden on Ramaphosa's administration, which is already struggling to maintain the nation's credit rating and bail out indebted state companies. "It's a critical organization," says Iraj Abedian, CEO of Pan-African Investments & Research Services, who has advised the government in the past. If returns generated by the PIC can't cover pension payouts, "it would become an absolutely phenomenal catastrophe that government cannot get out of," he says.

So far returns haven't suffered. In its 2018 annual report, the GEPF said its funds, almost all of which are invested with the PIC, grew by 153 billion rand, or 8.5%. It has a 108% funding level—that is, it has 8% more than it needs to pay promised benefits. But Ramabu Motimele, a senior human resources official at the PIC, told the commission that morale has plunged amid "mistrust and fear." The PIC's head of private equity has left along with the fund's top economist. Former and current PIC executives, who asked not to be named because of ongoing labor, disciplinary, and legal processes, say the turmoil has frozen decision-making below the executive committee. Employees spend their workdays watching live footage of the commission, before which more than 70 witnesses have delivered sometimes conflicting accounts of misconduct, political interference, and corruption.

The PIC even faces the possibility of losing its biggest customer. The Public Servants Association, the biggest labor union sending funds to the GEPF, is campaigning for the pensions of its members to be divided among private fund managers.

Allegations of political interference date to the rule of President Thabo Mbeki. The PIC helped found the Pan African Infrastructure Development Fund in 2007 just as the South African leader was promoting his "African renaissance" agenda of investment throughout the continent. During the scandal-marred years of President Jacob Zuma, the GEPF began a developmental policy that allowed up to 5% of its assets to be used for social infrastructure—such as schools, hospitals, and low-cost housing—and boosting black economic empowerment. Many deals now under scrutiny by the commission fall under this policy. Daniel Matjila, who departed the CEO post in November, also testified that the PIC lost $333 million by investing in Erin Energy Corp., an oil company whose founder was a friend of Zuma's.

Another investment under scrutiny: the PIC's funding in 2017 of Ayo Technology Solutions Ltd., a company linked to a businessman who claims close ties to the ruling African National Congress. Prior to the company going public, PIC paid 4.3 billion rand for a 29% stake in Ayo, a holding that today is worth 900 million rand, according to data compiled by Bloomberg. Matjila told the commission that the Ayo investment hasn't performed as anticipated because of expected deals not taking place, negative media reports and commission testimony, and litigation. Ayo has stood by its valuation and said it was continuing to implement the strategy it had laid out before its initial public offering.

The very structure of the PIC lends itself to political interference: The deputy finance minister has traditionally served as chairman. That practice was only broken with the naming of the interim board and the July 25 appointment of businessman Reuel Khoza as chairman. The most recent deputy minister and PIC chairman, Mondli Gungubele, forced Matjila out of the CEO post after he refused to go along with a proposed investment in struggling retailer Edcon Holdings Ltd. that would have helped secure 140,000 jobs, Matjila told the commission. Several months later, after labor allies of the ruling party threatened to discourage its 1.8 million members from voting for the ANC in May elections unless Edcon was saved, the PIC led a rescue with a 1.2 billion-rand investment.

Gungubele on several occasions told PIC executives that he was there as a representative of the ANC and had to be reminded of his responsibilities as a supposedly independent chairman, say members of the executive committee who asked not to be named because of ongoing labor and legal disputes at the fund manager. Gungubele said in a statement to the commission that it had been the board's collective decision that Matjila be asked to leave immediately because he had expressed a desire to depart at the end of his contract. Gungubele didn't respond to requests for comment on his role at the PIC.

Matjila himself supported another controversial investment: buying 90 billion rand of debt in Eskom. The utility has had to have the majority of its debt guaranteed by the government, is in the process of receiving a multibillion-dollar state bailout, and ▶

● Ramaphosa

● The PIC's assets under management, in South African rand

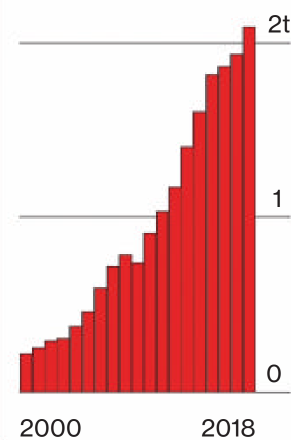


ILLUSTRATION BY 731. RAMAPHOSA: WALDO SWIEGERS/BLOOMBERG. DATA: COMPANY REPORTS

◀ may be split up. Buying that much Eskom debt "is a poor investment decision," says Pan-African's Abedian. "To position the fund manager as a lender of last resort is just bizarre and very unwise." Matjila said in testimony that Eskom is crucial to the South African economy, and the PIC's success depends on the economy's health.

Power struggles among executives may have added to the PIC's problems. Last year an organizational chart seen by Bloomberg was passed among some executives showing who were to be ousted, including Matjila, and who were to replace them—months before the suspensions and departures took place. Deon Botha, head of corporate affairs at the PIC, says the that PIC is not aware of the chart and that the suggestion of infighting over positions is "speculative and imaginary."

For now the asset manager, three times the size of its nearest South African competitor, is in limbo. The GEPF has reined in some of the PIC's discretion on nonpublic investments. "We want a complete overhaul of the mandate of the PIC, but secondly we want an opening in terms of the percentage of the investment that goes to the PIC and other fund managers," says Tahir Maepa, one of two deputy general managers of the Public Servants Association. "The purpose of investing is to make money. It's clear that the PIC has been a cash cow for a number of people." —*Antony Sguazzin and Janice Kew*

THE BOTTOM LINE The PIC's role as manager of the government-worker pension fund has made it a key player in the South African economy—and allegedly a tool of politicians.

What Does Trump Want For the Dollar?

● It's not easy to tell if the U.S. is still committed to a strong greenback

Since the 1990s the U.S. has explicitly stated that a strong dollar is in the nation's best interest. Global investors have come to take this stance for granted, giving them confidence that American officials won't debase the greenback.

But the Trump administration's chaotic messaging is shaking up these assumptions. A strong dollar is "a beautiful thing in one way, but it makes it harder to compete," President Trump said on July 26, adding that he hasn't ruled out taking action to weaken the U.S. currency. His comments contradicted those of White House economic adviser Larry Kudlow, who just hours earlier said the U.S. wouldn't intervene in currency markets.

The public back-and-forth intensified questions about America's currency policy. The strong-dollar dogma was introduced by then-Treasury Secretary Robert Rubin in 1995 as a way to bolster foreign demand for U.S. Treasuries, and it helped cement the dollar's long-standing status as the world's reserve currency of choice. The pledge to not devalue the greenback encourages international investors and U.S. trading partners to park their cash in U.S. assets.

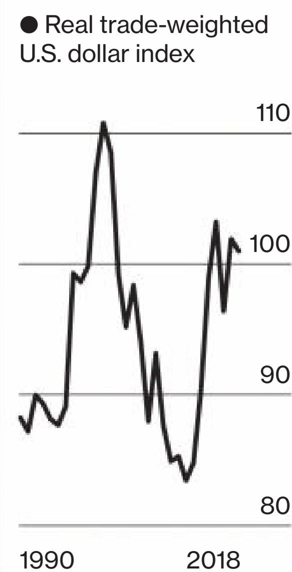
A weaker dollar would offer some benefits. U.S. manufacturers would get a leg up in selling their products abroad—their wares would become cheaper for foreign customers. At the same time, American companies and people buying imports would see prices rise. Abandoning the policy would also have implications for global markets and, in the long run, for U.S. government finances. Foreigners' faith in the dollar makes them more willing to hold U.S. debt, bringing down the interest rates the Treasury Department must pay.

At the moment, attracting global money isn't a problem: Foreign holdings of Treasuries were at a record high of about $6.5 trillion in May. Investors have few alternatives in a world where many bonds in Europe and Japan actually pay negative yields, compared with about 2% for 10-year Treasuries. But Trump's push for a weaker dollar could begin to crimp that inflow of international money, says Catherine Mann, Citigroup Inc.'s global chief economist.

In the eyes of Brad Setser, a former deputy assistant secretary for international economic analysis at the Treasury, the strong-dollar policy ended as soon as Trump began complaining about the greenback's strength. While past administrations left commenting on currency policy to the Treasury, Trump broke from tradition early. Before even taking office, he said in early 2017 that a strong dollar was "killing us." In the years since, he's taken to Twitter to bemoan the dollar's strength and to take aim at Europe and China for what he sees as currency manipulation.

"Given the thrust of communication over the past

● Real trade-weighted U.S. dollar index



two years, I continue to believe that the era of the strong-dollar policy is over," says Nathan Sheets, chief economist for PGIM Fixed Income and a former Treasury official. "This is something different. What's not yet clear is exactly how to characterize the new dollar policy and the features of the new regime." Even so, Trump's desire for a weaker currency should be taken seriously by markets, says Setser, now a senior fellow at the Council on Foreign Relations.

Treasury Secretary Steven Mnuchin has sent mixed signals on the dollar, which has gained against most of its Group of 10 peers in 2019. A trade-weighted index of the greenback adjusted for inflation isn't far below its highest point since 2003, showing the headwinds U.S. exports face. "Over the long term, I do believe in a strong dollar, which signifies a strong U.S. economy," Mnuchin told CNBC on July 24, adding that he wouldn't push for a "weak-dollar policy" in the near term. That assertion came days after he told Bloomberg News that there's no change in the nation's currency policy "as of now"—a disclaimer that stoked speculation that the U.S. could later step into markets to forcibly weaken the dollar.

Wall Street analysts still see intervention as an outside chance but not impossible. The U.S. hasn't sold dollars for the purpose of weakening the currency since 2000, a move that was part of a coordinated international effort to buoy the euro. Unilateral intervention would torpedo a long-standing commitment reaffirmed in June by the U.S., along with other Group of 20 members, to avoid weakening exchange rates to boost exports. The events of late July suggest there are divisions within the administration over whether to take that step.

A simpler way for Trump to get a weaker currency would be to say that the U.S. is scrapping its policy, Bank of America Corp. strategists wrote in a report in July. Although the phrase "strong-dollar policy" is largely symbolic, abandoning it in favor of a "strong-growth policy" would ripple through the markets and could spur a 5% to 10% drop in the greenback, they estimated. However, the administration would need to be careful to communicate the pivot in a way that doesn't "undermine the case for owning U.S. assets," the analysts cautioned.

Replacing this Clinton administration legacy would create lots of unknowns. What matters, Setser says, is "not so much the death of the strong-dollar policy, so much as what policy options that might open." *—Katherine Greifeld, with Saleha Mohsin*

THE BOTTOM LINE A weaker buck could boost U.S. exports, but walking too quickly away from a strong-dollar policy could roil global markets.

ILLUSTRATION BY 731. FRIEDMAN: ALEX FLYNN/BLOOMBERG. DATA: FEDERAL RESERVE

BW Talks Adena Friedman

The CEO of Nasdaq wants you to know the company is more than a stock exchange, even if it's where about 20% of U.S. equity trades are made. "Complacency is the killer of every great company," she tells Carol Massar and Jason Kelly.

● Became CEO of Nasdaq Inc. in 2017 ● Although she's spent much of her career at the company, she left to be chief financial officer of the Carlyle Group from 2011 to 2014 ● For nine years, she ran Nasdaq's data business

Nasdaq has recently gotten into sports betting. How so?

We are providing technology to a company called the Football Index. It's a U.K.-based firm, so "football" means soccer. It allows people to bet on certain players—it's almost like fantasy football in a betting context. They've created a marketplace that allows people to essentially buy interest in a player, watch that player's performance, and understand the returns. We already are in the horse-racing business. We have three racing authorities that use our pari-mutuel betting platform.

Are you moving away from the core business of trading?

It's about 25% or 30% of overall revenue depending on the quarter. The rest can come from data and analytics, corporate services, and market technology. Think of us as almost like Switzerland: We can provide that technology to other exchanges. We can provide technology to some of our competitors. And it is the fastest-growing part of our business.

People talk about companies staying private for much longer. How is that impacting you?

We have something called Nasdaq Private Market that helps private companies manage their liquidity. But of course we'd much rather see companies tap the public markets as soon as they're ready. The right thing over time is for the average investor to be able to invest in these companies, too.

You were once an intern at Nasdaq. What are the biggest market changes you've seen over your career?

I started in 1993, in the trading business. I was able to look at the trading as a technology. But at the time, we were just a U.S. equities market. Today we're a global technology company that serves 130 other markets, and we're also a European equities, options, and futures market.

● Interviews are edited for clarity and length. Listen to *Bloomberg Businessweek With Carol Massar and Jason Kelly*, weekdays from 2 p.m. to 5 p.m. ET on Bloomberg Radio.

The Plutoparty Is Almost Over

● A political backlash is brewing after the wealth gap widened for decades

A few years before the financial crisis, Ajay Kapur started advising investors to bet on the rich. He now says it may be time to unwind that trade.

In the mid-2000s, Kapur and his then-colleagues at Citigroup Inc. used the term "plutonomy" to describe economies where income and wealth are increasingly concentrated at the top. The U.S. was Exhibit A. The investment thesis boiled down to this: Buy the stuff rich people like.

The Citi stockpickers were latching onto a trend that was already decades old. And it's persisted ever since, through the worst financial crash in generations and now the longest expansion on record—making the U.S. the most unequal country in the developed world.

There are signs a political backlash is building. Democratic contenders for the 2020 presidential nomination support measures, from public health care to new taxes on wealth or securities trades, that aim to narrow the gap. Even within President Trump's Republican Party, which passed a tax bill widely reckoned to favor the wealthy, there's been support for curbs on share buybacks and the power of superstar tech companies.

That's the shape of things to come, according to Kapur, now head of Asian and emerging-market equity strategy at Bank of America Merrill Lynch in Hong Kong. He ticks off features of the U.S. economy that have been around so long that investors take them for granted: oligopoly power, lower taxes, capitalist-friendly legislation. "All of these are subject to change," he says. "No one is ready for this new world."

There are lots of ways to measure inequality, and most of them show it's getting worse. The problem isn't confined to the U.S. France has seen months of protests by the yellow vest movement, triggered by a fuel tax perceived to be unfair to the poor. Left-behind regions of the U.K. helped swing the vote for Brexit.

In the U.S., the Census Bureau's gauge of income disparity is the highest since record-keeping began in the 1960s. The Federal Reserve says the share of the nation's total wealth has declined over the past decade for every group except the richest 10%. "We're supposedly a more egalitarian country, where if you work hard and play by the rules and have access to capital, you can make it," says Heather Boushey, president of the Washington

Edited by Cristina Lindblad

ILLUSTRATION 731

18+

WHAT IS
AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

We have everything for all of your needs. Just open https://avxlive.icu

Center for Equitable Growth, a nonprofit research group in Washington. "That has been changing over the past half-century and closing off opportunity."

While the U.S. economy bounced back faster from the 2008 crisis than Europe's and Japan's, Boushey points out that gross domestic product is an aggregate measure and says nothing about "the very different experience across income groups."

Many economists say inequality is one reason the recovery has been lackluster by the U.S.'s own past standards. Rich people spend a smaller proportion of their income on goods and services than average folks do. They're more likely to invest their money or sock it into savings, which is one reason stock prices are so high and interest rates so low.

"You have to ask, 'Why has the expansion been so weak and so slow?' And maybe the answer is inequality," says Torsten Slok, chief economist at Deutsche Bank in New York. "The wealth effect that was supposed to generate a stronger expansion, well, if it's held by just one side of Manhattan, then it's not a surprise if you have slower consumption and growth."

To arrest the financial meltdown that began in 2008 and get economies growing again, the Fed lowered interest rates drastically and bought trillions of dollars in securities. That pumped up asset prices—and the wealthy have benefited the most. The richest 1% of Americans own about half the stock market.

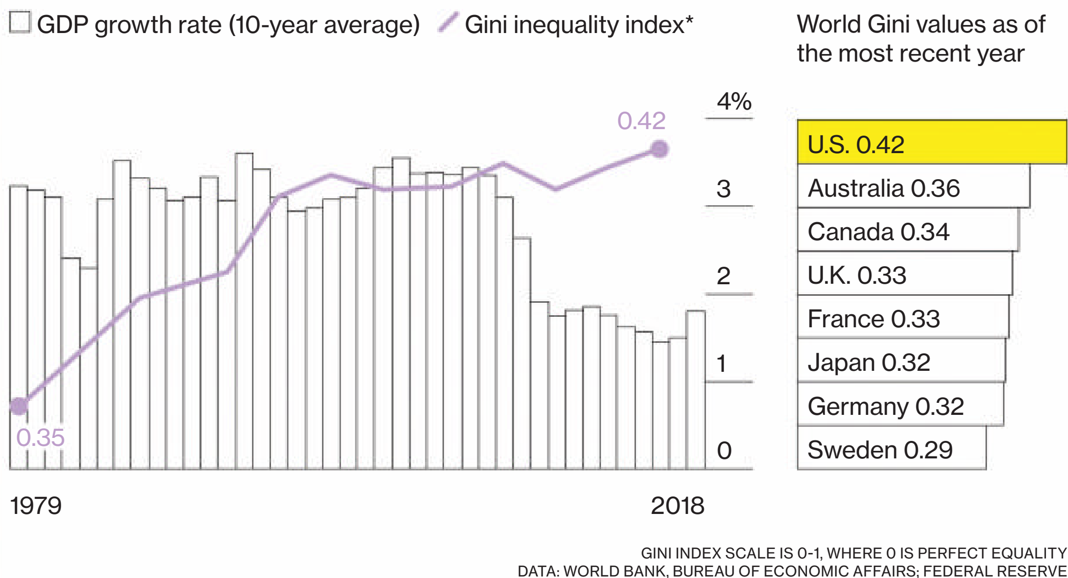
Meanwhile, wages haven't risen much even as unemployment has plunged to record lows. That's a conundrum that's perplexed economists and policymakers, including those at the Fed. Only late in the decade-long rebound has pay started to pick up, as Fed Chairman Jerome Powell told Congress in July. "The benefits of a strong job market have been more widely shared in recent years," he said. "Indeed, wage gains have been greater for lower-skilled workers."

The quarter-point interest-rate cut the Fed announced on July 31 may help extend the gains. Still, there's a growing consensus around the world that monetary policy has lost much of its potency, and that governments will increasingly need to resort to budget spending to shore up faltering economies. Kapur agrees. Compared with cheap money, he says, fiscal stimulus is generally "more friendly to the average person than the plutonomist."

The resulting rise in government spending and debt will likely hurt bonds and rate-sensitive equities such as utilities, Kapur and two Merrill colleagues wrote in April. Their report examined "peak plutonomy" and other global megatrends, including rising nationalism and a fading belief in economic orthodoxy. (Defense and entertainment stocks were tipped to be among the winners, in case you're wondering.)

Age of Extremes

U.S. economic growth has slowed as inequality has increased. Of the world's major developed economies, the U.S. is among the most unequal.



GINI INDEX SCALE IS 0-1, WHERE 0 IS PERFECT EQUALITY
DATA: WORLD BANK, BUREAU OF ECONOMIC AFFAIRS; FEDERAL RESERVE

History shows that inequality is driven by powerful forces that are hard to reverse and often leads to disruption and violence, Kapur says. But he sees signs that the U.S. is moving toward addressing the problem through elections and legislation—like it did in the 1930s. "Out there in the political realm, the 1%, the 10%—it's part of the conversation," he said. "The antagonism toward plutonomy has spread." *—Katia Dmitrieva, with Alex Tanzi*

THE BOTTOM LINE The U.S. Census Bureau's gauge of income disparity is the highest since record-keeping began in the 1960s. Inequality may be one reason the recovery has been lackluster.

Artsy Colleges Just Won't Die

● Even in a tough higher-ed market, few schools ever go out of business

Like leg warmers and mullets, Bennington College seemed a candidate for oblivion a generation ago. Tucked away at the foot of Vermont's Green Mountains, the school has long shined in the now-out-of-fashion humanities. Its famous alumni include writers Donna Tartt and Bret Easton Ellis, not hoodie-wearing tech billionaires. The college, which charges $73,000 a year, almost closed its doors in the 1990s and was still struggling earlier this decade. ▶

◀ Today, Bennington, with its more than 700 undergraduates, stands as a testament to the staying power of the nation's small liberal arts colleges. "They've survived because they've been able to exploit what they're good at, and that has enabled them to continue to attract students and retain faculty," says David Bergeron, a former deputy assistant secretary in the U.S. Department of Education. "The threat of closure has brought a new level of energy."

No doubt the college business is challenging. In the U.S., the number of high school graduates has been declining, especially in the Northeast and Midwest, by virtue of demographic factors. Fewer students are applying to college amid a buoyant job market and concern about the nation's $1.6 trillion in student loans. Meanwhile, immigration restrictions threaten to slow the stream of full tuition-paying students from China and elsewhere. And Democratic candidates for president have said they want public colleges to be free, which would make private institutions less attractive.

Last year one-third of private colleges saw a decline in revenue from tuition, up from 15% five years ago, according to Moody's Investors Service. The Council of Independent Colleges estimates that 2% of its roughly 650 members are struggling financially. A dozen have closed or merged over the past four academic years. Vermont's Marlboro College recently announced it would merge with the University of Bridgeport in Connecticut.

In 2013, amid the boom in online education, Harvard Business School professor Clayton Christensen predicted that half of all U.S. colleges would go bankrupt in 15 years. The apocalypse has been slow in coming: The U.S. Department of Education counts about 750 colleges with 1,000 or fewer students, compared with about 790 a decade ago.

Today, selective liberal arts colleges such as Williams and Amherst rank among the nation's most sought-out and wealthiest institutions, relative to their size. But even those with weaker finances have found ways to keep operating. In 2015, Virginia's all-women Sweet Briar College announced it was shutting down. Alumnae immediately mobilized, hiring a law firm to block the closure and raising tens of millions of dollars to tide the school over while it drafted a restructuring plan.

Tuition was slashed almost in half, to $21,000, and majors winnowed to 18 from 40, with an emphasis on technology, engineering, math, and environmental science. Sweet Briar has raised $64 million since 2015 and now boasts a balanced operating budget. Enrollment for the coming school year is up more than 15%, to a total of about 380, according to spokeswoman Melissa Richards.

Drawing on its past as a working farm, Sweet Briar has hit on an unconventional revenue stream: raising bees and crops on its 3,200 acres near Lynchburg, Va. "We're driving interest, driving agriculture, driving an experience, which is really selling tuition dollars," says Nathan Kluger, director of agricultural enterprise.

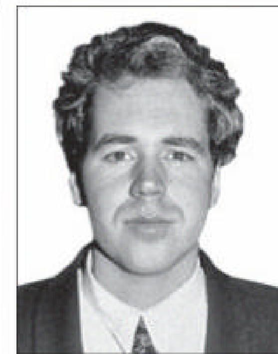
In January, Hampshire College in Amherst, Mass., looked like the latest casualty when it announced it might not enroll a freshman class and was dismissing two dozen staffers. Interim President Ken Rosenthal says the school is getting the message out about its strengths with the help of prominent alumni such as filmmaker Ken Burns. "We have to look in places for students that we may not have looked before," he says.

Hampshire, which expects to enroll 600 to 700 students this year, might want to replicate the Bennington playbook. The Vermont college has cut costs and instituted unusual interdisciplinary "pop-up" classes on current topics such as gun violence. It will get new revenue from hosting Middlebury College's summer language programs. The endowment has tripled, to $51 million, thanks to more aggressive fundraising. Applications are up 20% despite the big price tag. (The administration says that, on average, it awards students $33,000 in annual grants.)

Bennington has been savvy about leveraging its art heritage. Michael Hecht, a trustee who was the accountant to influential painter and alumna Helen Frankenthaler, helped the school create new programs in partnership with museums in New York City. He also introduced school officials to the leadership at the foundation of another client, the late Broadway producer Lucille Lortel. That led to Bennington students securing paid internships at off-Broadway theaters. "It was all there. We're really connecting the dots," Hecht says.

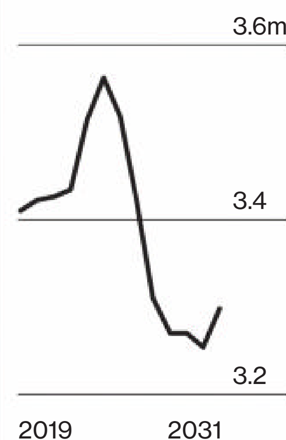
River Valadez, of Seattle, picked Bennington over the Boston Conservatory at Berklee and schools closer to home in the Pacific Northwest such as the University of Puget Sound. Valadez, a rising senior, has a dual concentration in ceramics and music composition. This summer he's building on his experience at a Bennington-related museum internship by working at a ceramics studio in East Williamsburg in Brooklyn, N.Y. "The programs [at Bennington] are awesome," says the 22-year-old. The campus "is beautiful, and I could shape what I wanted to do." —*Janet Lorin*

THE BOTTOM LINE High-priced liberal arts colleges in the U.S. have demonstrated surprising resilience in the face of adverse forces, including a shrinking pool of U.S. applicants.



● Bennington alum Ellis, circa 1990

● Projected size of graduating U.S. high school classes



"We have to look in places for students that we may not have looked before"

ROBIN PLATZER/TWIN IMAGES/THE LIFE IMAGES COLLECTION/GETTY IMAGES; ILLUSTRATION BY NICHOLE SHINN; DATA: WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION (LEFT), PEOPLE'S BANK OF CHINA

China's Generation Z Is Hooked on Credit

● Banks, fintechs, and peer-to-peer lenders are aggressively courting cash-strapped young consumers

At one point in June last year, Zeng Jinpeng was more than 10,000 yuan ($1,500) in debt to a smartphone app.

The 23-year-old Shanghai resident pays for his online purchases of food, clothes, and travel with Huabei, a virtual credit card that's part of Alibaba Group Holding Ltd.'s sprawling stable of e-commerce properties. His spending often used to exceed his only source of income: the 8,000-yuan monthly allowance from his parents. He tried to repay the debt in installments, even borrowing from Jiebei, another Alibaba-owned credit service, but eventually his mother and father had to bail him out.

Zeng's story is typical of members of China's Generation Z. These fledgling consumers, born from the mid-1990s to the early 2000s, have little income and therefore virtually no credit history. Yet they have easy access to credit from an assortment of banks, fintech startups, and peer-to-peer lenders, plus other channels that are unregulated. Formal household borrowing rose to 54% of gross domestic product in the first quarter, up more than 4 percentage points in a year. China's ratio is still lower than that of the U.S. (66%), Hong Kong (72%), or South Korea (100%), according to S&P Global. Nevertheless, the rapid increase is worrying regulators and analysts. In mid-July, Fitch Ratings noted that periods of debt-fueled consumption "can often be followed by sharp market corrections."

The spending habits of the young in particular are causing concern. Late last year, former People's Bank of China Governor Zhou Xiaochuan said that in some cases the younger generation is being induced to overconsume via credit secured through technology. According to a note the Shanghai University of Finance and Economics released in July, there could be consequences for the broader economy if debt piles up to the point where it "starts to erode household liquidity and crowd out demand," meaning repayments take up so much disposable income that there's little left for new purchases.

China is in the midst of a long-term shift from an export- and investment-led growth model toward something more like a modern consumer economy. A consumer debt crisis would throw that strategy off track at a time when production for export is constrained by the trade war.

Unsecured consumer lending has expanded 20% a year in China since 2008, and intensifying competition is pushing financial institutions to chase less creditworthy borrowers such as Zeng. Huabei charges him 0.05% per day, for an annualized rate of 18.25%. The service offers revolving lines of credit from 500 to 50,000 yuan. Balances can be repaid in monthly installments. Alibaba's rivals, including JD.com Inc., have similar products.

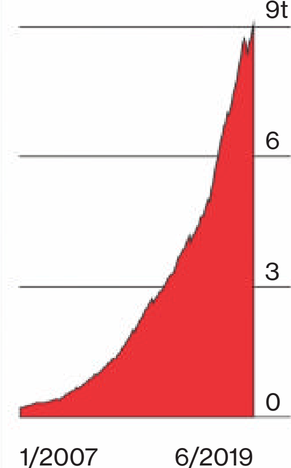
Unlike credit card debt, loans offered on these platforms are mostly uncounted in official data. Consulting firm IResearch projects the amount of consumer finance available through the internet will more than double, to 19 trillion yuan, by 2021, from 7.8 trillion yuan last year.

Regulators last year launched a crackdown on peer-to-peer lending, which besides being a source of easy credit had also become a popular investment vehicle. The sector has shrunk to less than half its peak size as a result of forced shutdowns. Official data showed that almost 70% of China's 50 million P2P investors were younger than 40.

As for Zeng, he's trying to be a little more frugal, even though he now earns a small income from an internship in Shanghai. "I deliberately set the credit limit at a lower level," he says, "so that hopefully I can better match my income with spending."
—*Bloomberg News*

THE BOTTOM LINE Unsecured consumer credit has been growing 20% per year in China, driven in part by young people's predilection for shopping online.

● China household short-term consumption loans, in yuan



Mexico's President Addresses the U.S.

Andrés Manuel López Obrador defends his record on migrants, growth, and Trump

Mexican President Andrés Manuel López Obrador, known as AMLO, hasn't stopped to rest since taking office eight months ago. After meeting with his security team to assess the latest crime statistics, he speaks most weekdays at 7 a.m. from the presidential palace in Mexico City, making announcements and taking questions from the press. On weekends he flies coach to visit places such as Zongolica, Veracruz, and Tapachula, Chiapas, to meet with locals and sell his social policies, which include direct cash transfers to elderly and young people.

On July 29 he sat down with Bloomberg Editor-in-Chief John Micklethwait for his first interview as president with an international news outlet. Their conversation began with a discussion of the U.S., which López Obrador continues to view as an ally.

We share a 3,180-kilometer border with the United States. If we were a European country or a South American country, perhaps, we could try to have a different type of relationship with the United States. However, we're neighbors, and this neighborliness makes it mandatory for us to understand each other.

Micklethwait: On Friday, July 26, as you know, Guatemala entered a "safe third country" agreement. Now, when people from countries like Honduras or El Salvador seek asylum, they have to apply in Guatemala first rather than going to America. Would you ever let Mexico agree to the same?

We wouldn't. We are enforcing a program to reduce the number of migrants; it provides protection to those coming into Mexico. Migrants have been murdered, and that's something we do not want. We mobilized the National Guard—we already had that plan, since before the threat of tariffs. Results have been good, although, I must insist, the best way is to look into the causes of this: People do not migrate because they want to; they do it because of need. I have a dream that I want to turn into a reality. The day will come during my administration in which Mexicans will not be going for work to the United States anymore, because Mexicans will have work and they will be happy where they're born.

When you were interviewed by Bloomberg in 2017, you accused Donald Trump of "having a campaign of hatred against Mexican immigrants." Do you still believe that?

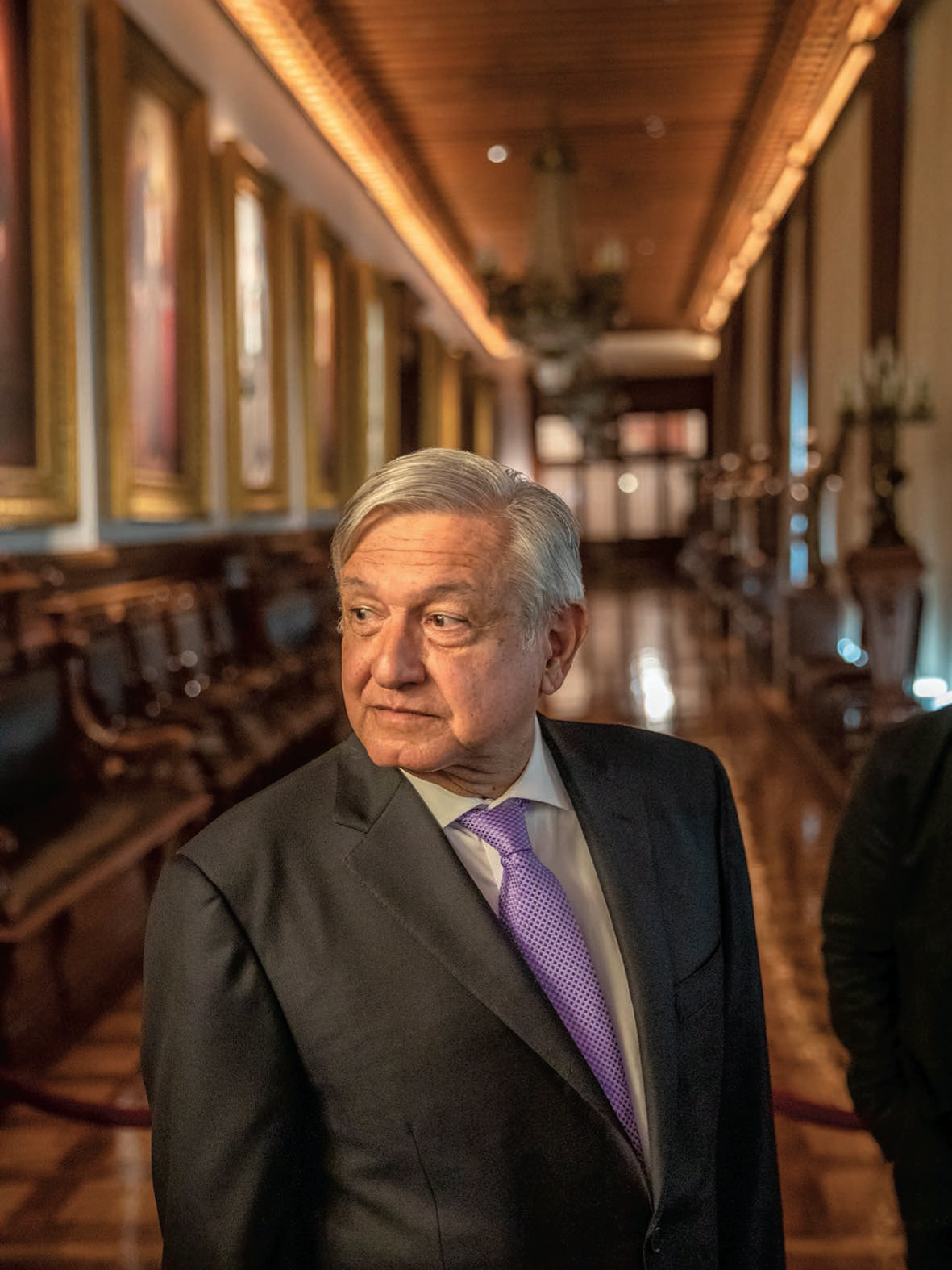
I think that, as we say informally, he has toned it down. President Trump is more moderate now, and we are grateful for that. In spite of the fact that—and I say this with due respect—the United States is now going through an electoral process. A president takes office in the United States, works for two years, and then, after that time, he starts thinking about being reelected. That is what is happening now. In Mexico, we have a six-year period with no reelection. This works well for us. You are having elections in November 2020, next year, and the campaigning has already started. This has a lot to do with—sorry to say this—the migration policy and other…

Just to push you one last time: Your heroes are people like Lázaro Cárdenas, Abraham Lincoln, Benito Juárez. These were all men of principle who stood up to bullies. Do you think that you are standing up to Donald Trump?

There are parallels, you see. When Abraham Lincoln was president in the United States, in Mexico, Benito Juárez was the president, the best president in the history of this country. And there was a good relationship. And President Franklin Delano Roosevelt, the titan of freedoms, really had a very good understanding with President Cárdenas, in spite of the fact that, because of circumstances, President Cárdenas had to nationalize oil. Now, even though President Trump is ▶

Edited by Jillian Goodman

PHOTOGRAPH BY BRETT GUNDLOCK FOR BLOOMBERG BUSINESSWEEK



◀ a Republican, and myself, I have a progressive political stance with a social dimension, a nationalist position, I think we can understand each other. We've talked three, four times on the phone. The most complicated issue was this recent topic, the tariff threat. And we reached an agreement.

Can we look at the Mexican economy? You were hoping for it to grow at 4%. This week, there were worries you may go into recession. Do you think Mexico will go into recession this year?

No, no. We're doing fine. The economy is not growing as we would want it to, but on the other hand, we have other indicators that show that the economy is fine. For instance, the peso has strengthened. Let me clarify this: I mentioned a 4% average in my six-year term, not 4% in a year's time. Forecasters may say, "How can you go from 2% to 4% in Mexico?" Well, before the neoliberal period, for 50 years since the Mexican Revolution, we grew at 5% or 6% a year with no devaluation and no inflation. The Mexican miracle in the economy—that's what we want.

But can you have a Mexican miracle with interest rates at 8.25%? I know you have been good at not interfering in the central bank, but do you think that interest rates are too high?

Yes, but look, I'm respectful of the autonomy of the central bank. They're more cautious about inflation. That's not a bad thing. But it's important to lower rates to kick-start the economy. This is an issue that we are leaving for the central bank to decide, because we trust we'll deliver not only growth, but also development. We want to create new paradigms. Growth creates wealth but doesn't necessarily distribute wealth. Development is growing and distributing wealth.

When most people from the Left come to power, they tend to spend money, but you have followed policies of austerity. Some of your critics say you care too much about the surplus and that is one reason why the economy is not growing. Do you accept that?

Well, that's the new paradigm. The first problem of Mexico is corruption—I can tell you that today, no corruption is tolerated.

On the Left, people think that austerity is firing people. One time, I was talking to the Labour leader, Mr. Jeremy Corbyn of the United Kingdom, my friend. He said, "How can you talk about austerity? I don't understand." Austerity for us Mexicans, however, is inspired by President Benito Juárez, who used to say that public officials had to learn to live in the middle, without any luxuries. But a lot was being spent in supporting the government. Former presidents of Mexico had pensions that amounted to more than any former president receives in any part of the world. The Mexican president was being protected by 8,000 security guards of the presidential security detail, who made more than any soldiers. All this was canceled. That's austerity.

This interview has been condensed and edited for clarity. López Obrador's answers have been translated from Spanish.

THE BOTTOM LINE Mexico's president has pledged to root out corruption and moved to stop the flow of migrants through the country, but he still faces calls for more spending and more growth.

PredictIt Has the Odds on 2020

● A research exemption allows the site to take bets on U.S. elections

Voting in the Democratic primaries doesn't start for six months. Candidates have yet to trek to the Iowa State Fair for their obligatory deep-fried photo opportunities, and many voters are only just waking up to the election looming in the fall of 2020. But on PredictIt, a political-betting website built by a group of researchers in New Zealand, a shadow primary has already been raging for months.

Former U.S. Representative Beto O'Rourke of Texas was the early front-runner, with traders giving him a 20% chance of winning as of January. California Senator Kamala Harris passed him later that month when she made her candidacy official, but by March, Senator Bernie Sanders of Vermont was the leader. Harris moved back into the front after calling out former Vice President Joe Biden in their first debate for praising the genteel segregationist senators of the past, and the two were neck and neck heading into their second faceoff on July 31.

Since it went live in late 2014, PredictIt has become the go-to place to gamble on U.S. politics. The site makes it as easy to wager on how many tweets President Trump will send this week as it is to buy a stock on ETrade. Trading volume has been running at about 250 million shares per year, estimates Jon Hartley, an economics writer and researcher, with each share representing a potential payoff of $1. (PredictIt says that figure isn't accurate and won't share its own numbers, but Hartley says it's derived from data provided by the site.)

PredictIt's markets are routinely cited by the press as evidence of whom the smart money favors.

Betting on politics is illegal in the U.S. PredictIt owes its existence to an exemption for academic research granted five years ago by the Commodity Futures Trading Commission (CFTC) to Victoria University of Wellington in New Zealand. To get permission to operate the site, the school said professors would run it for free and the data would be used in academic studies.

PredictIt is similar to a stock market: Gamblers post offers to buy and sell "shares" in candidates at prices up to $1. If you wanted to bet that Massachusetts Senator Elizabeth Warren would be the Democrats' 2020 nominee after her second debate on July 30, you could have bought a share the next day for 21¢. If she wins, you'll get $1. If she loses, her stock goes to $0, and you lose your money. The site collects a 10% fee on winnings and a 5% fee on withdrawals. Individual bets are limited to $850, per the agreement with the CFTC. But with so much politics to gamble on, that hasn't put much of a damper on the action. Political day traders try to capitalize on swings in opinion long before votes get cast.

Aaron Reese, a 34-year-old MBA student at Rice University, says he often makes enough money on PredictIt to pay his rent. He says Trump's surprise victory created a group of bettors who don't trust polls, which means easy money for him. "People don't believe reality anymore," Reese says. "People think every poll is fake and nothing matters anymore."

Victoria University owns a small percentage of PredictIt and collects a monthly administration fee, according to Anne Barnett, who runs a program at the school that helps professors turn research projects into businesses. The site's operations have largely been farmed out to a political software company called Aristotle Inc. John Aristotle Phillips, its founder, says the school was already running a similar site and he helped it expand into the U.S. But don't call it gambling, he says. He prefers the term "forecasting." "It's an antidote to fake news," Phillips says. "If a trader makes a buying or selling decision on something that's inaccurate or misleading, they're going to lose their money."

A century ago, bookies openly took illegal political bets at New York City's stock exchanges and hotels. With no public polls to report on, newspapers wrote about big bets placed on candidates. Election wagering fell out of favor once Gallup introduced a poll that accurately predicted Franklin Delano Roosevelt's 1936 presidential victory and New York legalized betting on horse races, according to economists Paul Rhode and Koleman Strumpf.

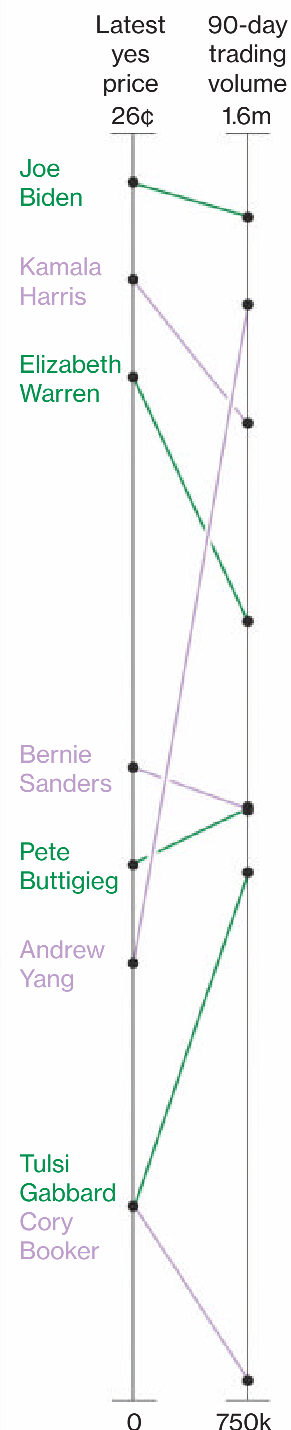
Chances are that at some point this election season someone will tell you that prediction markets are a better gauge than polls. They developed this reputation after bettors on a similar site called InTrade correctly called the presidential election in 49 of 50 states in 2012 and 47 states in 2008. But one 2012 analysis showed that the prediction market had done no better than pundits who relied on polling averages—unsurprising, given most traders lean on those indicators, too. InTrade was based in Ireland and took bets from Americans until it became too well-known during the 2012 election and U.S. regulators sued it. The site closed the next year. The Iowa Electronic Markets, another political-gambling site, got an exemption from antigambling laws in 1993, but its website is outdated and difficult to use. It offers just a couple of events to bet on and only allows gamblers to deposit $500.

To justify the academic exemption that allows it to ignore gambling laws, PredictIt provides its data at no cost to researchers. Phillips says they study the data "to understand why markets are as predictive as they are." A spokesman for Aristotle declined to say how much the company has made from PredictIt, but he said that the site has yet to earn back its startup costs.

When *Bloomberg Businessweek* contacted dozens of the people listed on PredictIt's site as "our research partners," none said they had done any work of the sort Phillips described, though a handful had made use of the odds as a control variable in other studies. Several were surprised to see their names listed. "That is a bit misleading," says Paul Armstrong-Taylor, an economics professor at the Hopkins-Nanjing Center in China, who says he asked for the data on behalf of a student who never used it. The Aristotle spokesman said Armstrong-Taylor's name would be removed and provided a list of 15 papers and presentations that made use of PredictIt data over the past few years. (PredictIt says all the researchers listed signed an agreement to receive data.)

Reese, the trader, says the best bet on PredictIt has been selling shares of Andrew Yang, the longshot candidate who's an internet favorite. His fans are driving up his stock price to show their support—up to 8¢, double U.S. Senator Cory Booker's—and there's not enough smart money to balance them out. "When prices start moving, people will assume other people know something they don't," he says. "You have to figure out what you think the real probability is." —*Zeke Faux*

THE BOTTOM LINE Prediction markets run on much of the same information as polls and media reports, so don't stop believing what you see and read.



DATA: PREDICTIT, AS OF JULY 31

A BETTER WAY TO ZONE

By Noah Buhayar

PHOTOS, FROM LEFT: LACEY YOUNG/MINNESOTA PUBLIC RADIO; COURTESY TONY WEBSTER. DATA: URBANFOOTPRINT, HENNEPIN COUNTY, U.S. CENSUS BUREAU

August 5, 2019

Minneapolis has a grand plan to make housing more affordable. Inside the fight for the future of an American city

70% of the city's residential land is zoned for single-family homes

- Single-family detached homes only
- All other residential
- Commercial and other

The 2040 plan aims to strike a blow against decades-long racial inequities in housing, visible in places such as north Minneapolis

City Hall

Mississippi River

"Don't Bulldoze Our Neighborhoods" lawn signs sprouted in tony areas around the Chain of Lakes

Residents of the Wedge led a grassroots campaign, Neighbors for More Neighbors, in favor of the city's plan

The crowd at the Bauhaus Brew Labs was thick with flannel and knit beanies, with the odd "Beto for President" T-shirt thrown in. But the handful of patrons gathered by the glass garage doors of the cavernous Minneapolis taproom in March weren't regulars. They'd turned out for the kickoff of a website called vox.MN. Their nametags said things like "I ❤️ my neighborhood." Another had a circle with "2040" inside and a line running through it, like a no-smoking sign.

That was a reference to the city's sweeping new urban plan, Minneapolis 2040, approved by local officials in December. Spelled out in a more than 1,000-page document, it makes this city of 428,000 one of the first and largest in the U.S. to end single-family zoning, which applies to 70% of Minneapolis's residential land. Developers will soon be able to build duplexes and triplexes without going through the time and expense of applying for a variance or confronting the kind of neighborhood opposition that often stymies such projects.

The move, which made national headlines, was widely celebrated by urbanists, who've long argued for more density. Restricting large swaths of U.S. cities to single-family residences limits the supply of housing, they argue, driving up prices, contributing to sprawl, and reinforcing decades of racial inequity. "Minneapolis 2040: The most wonderful plan of the year," was the take of the Brookings Institution just before Christmas.

The praise has been echoed by, among others, U.S. Housing and Urban Development Secretary Ben Carson and the *New York Times* editorial board, which said the plan "deserves wide emulation." Already, Oregon has followed suit with a statewide measure to do away with single-family zones in its cities, and policymakers from California to North Carolina are looking at the option, too. Democratic presidential candidates such as Cory Booker, Julián Castro, Amy Klobuchar, and Elizabeth Warren have offered related proposals.

Yet for all the fanfare, some residents in Minneapolis are seething over what happened. In the runup to the vote, they clashed with a well-organized and diverse group of proponents, flooding the city with comments. Red lawn signs warned ominously that neighborhoods of single-family homes would get bulldozed to make way for apartment buildings.

The nametag folks at the Bauhaus Brew Labs were certain the effort would end poorly. Mary Pattock, who served as communications director for the city's first black mayor in the 1990s, said she and other white homeowners who campaigned against the zoning changes were made to look racially insensitive. "It's kind of like Trump," she said, clearly as an insult. "He doesn't really say, 'I hate black people,' but he's giving out those messages. That's the way this plan was set up. It was set up to polarize on the basis of race."

The 2040 plan also fomented divisions between young and old. "A lot of millennials feel like they're taking it in the shorts" because high levels of college debt and rising real estate prices have put homeownership out of their reach, said another anti-2040 activist, retired council member Lisa McDonald. "My husband and I were pretty poor when we started out," she added. "We basically scrabbled, renovated houses ourselves, until we were able to live where we live now"—a $1.6 million home on one of the city's large, picturesque lakes. "Should we be penalized for that?"

At some point, McDonald said, younger people will have kids and want to own a single-family home just as her generation did. "Let's try to think about that, and not be, basically, hanging our future on just renters," she says.

Carol Becker, standing nearby, chimed in: "They're going to spawn, man!"

Breeding habits aside, there are economic issues at stake, along with the city's goals of making housing more affordable and equitable. Academics have started to quantify the costs that local restrictions on land use can inflict nationwide. In a recent paper, Chang-Tai Hsieh, of the University of Chicago's Booth School of Business, and Enrico Moretti, at the University of California at Berkeley, argued that barriers to building more homes in New York, San Francisco, and San Jose lowered U.S. economic growth by 36% from 1964 to 2009. Impediments to housing supply in these highly productive places effectively

"We basically scrabbled, renovated houses ourselves, until we were able to live where we live now. Should we be penalized for that?"

▽ McDonald

kept Americans from making an additional $3,685 per person per year by 2009, they found.

Minneapolis isn't Silicon Valley, and no one is suggesting that allowing more development in a midsize Midwestern metropolitan area will turbocharge U.S. growth. But the city's drive to boost density could have benefits beyond its borders and set an example for the rest of the country, Moretti says. "It's not just good for Minneapolis, it's good for the rest of the U.S., as well."

△ Bender

About a dozen city staff worked on the 2040 plan for roughly two and a half years. But its biggest political champion was Minneapolis Council President Lisa Bender, a 41-year-old former city planner and cycling advocate. She'd moved back home to the Twin Cities with her husband in 2009 after stints in New York and the Bay Area, lured by the great parks, top-notch public schools, and what then was reasonably priced housing. Even so, Bender says, she could see that Minneapolis faced a "looming affordability crisis."

In 2013 she decided to contest her local council member's seat. A Facebook post from the time shows her, nine months pregnant, canvassing on a bicycle. "I ran for election explicitly saying we need more housing," says Bender, who gave birth to her second child a month before winning office.

Minneapolis's population was already growing rapidly, jumping by about 46,000 people, or 12%, from 2010 to 2018, as younger people settled in the city instead of the suburbs. Rents rose briskly, and apartment vacancy rates plunged to some of the lowest levels of any major U.S. metro area. The inventory of homes on the market dwindled, spurring bidding wars. "The price of coffee hasn't changed in five years, but housing costs 40% more," says Aaron Eisenberg, a real estate agent who often works with first-time buyers.

Millennials struggling to find houses in their price range were just the tip of a much deeper problem. Minneapolis, like many U.S. cities, has a history of segregation reinforced by federal, state, and local housing laws. Almost 60% of white residents own a home in the city, but only about 20% of blacks do, one of the largest differentials in the nation and a big reason for the yawning racial wealth gap. In the 20th century, "you had these intentionally segregationist and racist policies" that barred blacks from living in certain parts of town, says Mayor Jacob Frey, 38, who backed the plan. When those laws became illegal, the city "started doing it in other ways, through our zoning code," he adds. "That's what we're pushing back on."

In her freshman term, Bender championed a law that allowed homeowners to build backyard cottages as a way to encourage more density in single-family neighborhoods. She also quietly began laying the groundwork for more ambitious reform. Every 10 years, local governments in and around the Twin Cities are required to submit a long-range plan to a regional council. Minneapolis had done a good job of charting a vision for its transit system, Bender says. But it had never focused on what it would mean to make access to housing more inclusive. The city likes to think of itself as progressive, but Bender knew changing zoning would be controversial. People "start to have a lot of emotion around what's my community going to look like, how do I fit in here" when you start talking about what could get built on their corner, she says.

Another challenge: Work on the plan would straddle an election year, putting into question whether there'd be political backing for some of the more controversial ideas. As Bender campaigned for her own reelection, she also threw her support behind other pro-growth candidates committed to making housing more affordable and racially equitable.

One was Phillipe Cunningham, a black, transgender former mayoral aide who won a seat in 2017, beating a long-serving council president. Cunningham had witnessed the effects of the housing crunch in his own ward, a diverse, working-class area in north Minneapolis. Buyers who were getting priced out of other parts of town were increasingly moving into his neighborhood, driving up home values. Investors had targeted the area, too, snapping up single-family homes that could be turned into rentals. "I'm not OK with my constituents being displaced by people with higher incomes," Cunningham says. "We need to build more places for people to live."

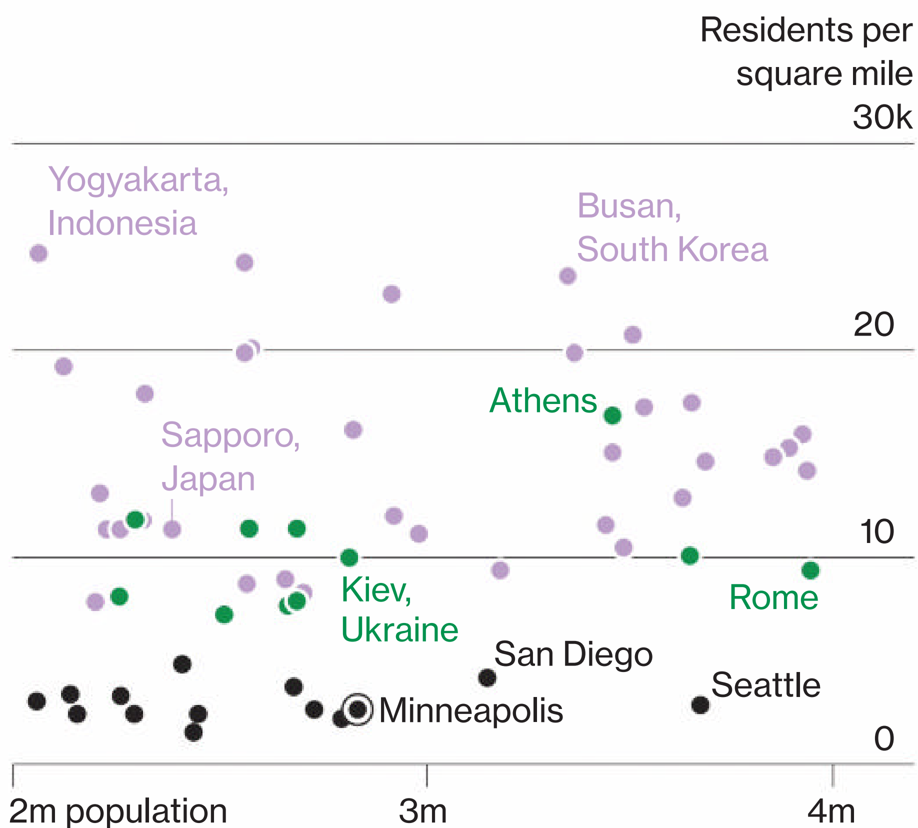
By the time the new council was sworn in at the beginning of 2018, city staff were deep into their work on the 2040 plan. They held dozens of information sessions around the city, including on public transit. "We'd just get on the bus and talk to people," recalls Heather Worthington, director of long-range planning.

The city released a draft in the spring. The backlash ▶

PHOTOGRAPHS BY ACKERMAN + GRUBER FOR BLOOMBERG BUSINESSWEEK

Global Midsize City Densities

Single-family zoning has contributed to sprawl in America's urban areas



◀ came quickly. One of the ringleaders was McDonald, the retired council member, who'd cultivated a brash, tough-talking image during her years in office. (A local weekly newspaper once ran an image of her astride a motorcycle, with the headline "Hell on Wheels.") Another was Becker, a member of the city's Board of Estimate and Taxation and a longtime fixture of local Democratic politics. The group they fronted, Minneapolis for Everyone, made red "Don't Bulldoze Our Neighborhoods" lawn signs that started cropping up around town, mostly in the whiter, wealthier neighborhoods in the southwestern quadrant of the city.

Advocates, who'd anticipated the blowback, formed a rival group called Neighbors for More Neighbors. The name was a wry take on how Nimbyism ("not in my backyard") finds expression in slogans like, "Neighbors for This, Neighbors for That," says John Edwards, a local blogger and the group's co-founder. It turned out to be a positive message that resonated with a wide swath of Minneapolis, helping build grass-roots support.

As the two sides battled into the fall, the public remained sharply divided. A review by the *Star Tribune* of a sample of the more than 18,000 comments collected by the city showed that critics outnumbered supporters 2 to 1. Worthington, whose staff reviewed all the feedback, said those in favor had an edge.

Meanwhile, Bender was working to win over her council colleagues. A revised version of the plan capped the number of units that could be built on lots zoned for single homes at three, instead of the fourplexes allowed in the draft. In December the council approved the document in a 12-to-1 vote. As media outlets across the country took note, Bender tweeted: "We have inspired a national conversation about racial exclusion in housing and how cities can move forward to do better. Great job by an amazing team. Minneapolis is 🔥🔥🔥"

The reality on the ground is, of course, more nuanced than the dueling lawn signs make out. "From the front, we designed this to look like a single-family home," says Bruce Brunner, standing outside his latest project in south Minneapolis. The framing is done, revealing a roofline that fits in with the stately, century-old homes that line the street. Instead of housing one family, though, each floor of the three-story building will be a separate 1,247-square-foot, three-bedroom, two-bathroom apartment.

Brunner, a former Target Corp. executive-turned-builder, had been planning to put just a duplex on the site, but the neighborhood association encouraged him to try for three units instead. There was just one hitch: The city's zoning code wouldn't permit it. So Brunner ended up taking his case to the planning commission for a variance. "One of the funny things is that the only person who opposed it lives in that fourplex," he says, motioning to a building down the block that dates from an earlier era when they were allowed. "They said, 'If you let them build the triplex, it's going to ruin the neighborhood.'" He got the approvals anyway, but the process dragged out.

On principle, Brunner is a fan of the 2040 plan, which will clear away some of that red tape. He lives in a nearby duplex and supports the city council's social goals. Still, he's skeptical that upzoning single-family neighborhoods will translate into a massive business opportunity. Small projects like his are too idiosyncratic for most big developers to bother with. Even for smaller players, triplexes often don't pencil out; construction and land costs are too high compared with the rents a landlord can expect to charge. For most lots in the city, Brunner says, "the equation doesn't work."

Adding a bunch of duplexes and triplexes is also a pretty inefficient way to solve the housing shortage. What's needed are big and midsize apartment buildings. Minneapolis officials know this, which is why the 2040 plan allows for larger developments around transit hubs and select other areas. To ensure the new rentals are affordable, the council adopted a temporary measure that requires certain new buildings to earmark at least a tenth of their units for residents making as much as 60% of the area median income, charging about $1,350 a month for a two-bedroom. Lawmakers also intend to pass a permanent ordinance to make sure the city ends up with a mixture of housing, not just luxury apartments.

The real estate industry has its doubts. The council seems to think the affordable units will "just come out of developer's hide," says Steve Cramer, president of the MPLS Downtown Council, who brought together for-profit and nonprofit developers to weigh in on the policy. Last year the group estimated the industry needed to sink more than $3 billion into housing just to make up for a decade of underbuilding in Minneapolis

DATA: WENDELL COX CONSULTANCY

△ Brunner

△ The triplex he built

and an additional $1.3 billion every year to keep up with population growth. It's unlikely developers will appear with that kind of money, given the current policy. "That's the fundamental fallacy of this," Cramer says. "These projects just won't get financing."

Developers are raising some valid concerns, says Andrea Brennan, the city's director of housing policy and development. Still, Minneapolis wouldn't have gone through "all this trouble to create this very permissible development environment if we didn't want development," she says. "The question before us really is, who benefits from growth?"

On some level, the most striking thing about the 2040 plan is that it passed at all. It takes political courage to approve a policy so farsighted many of the officials who voted for it will be out of office by the time anyone knows if it worked. Bender says the changes "are incremental enough and moderate enough that people won't see the huge things that they're really afraid of."

Yet that also suggests that people who expect the plan to quickly make housing more affordable and equitable in Minneapolis may be disappointed. The problem, as Bender and others point out, has been decades in the making and will take years to fix. And much of what's in the plan is far from finished policy. Even the change to allow triplexes on single-family lots still has to be enshrined in the zoning code, a step the city plans to take when it receives a final signoff from the regional council, which is expected in September.

These are just local fixes to a problem that, on many levels, only the federal government has the resources to solve. The U.S. has cut housing assistance by two-thirds since the late 1970s, putting pressure on cities and states to help low earners, whose wages haven't kept up with rising housing costs. Last year, Mayor Frey budgeted a record $40 million for affordable housing, but much more will be needed. In the meantime, the counterrevolution is in motion. A lawsuit filed to halt the plan on environmental grounds was dismissed in April, but the plaintiffs are appealing. And there's a nascent effort to revamp how the city elects council members in a way that critics say could give more power to the whiter, wealthier parts of the city. Even if that doesn't come to pass, the 2040 plan is almost certain to be an issue in the next council elections in 2021.

Minneapolis was able to do something bold precisely because housing costs haven't gotten too out of control, says David Schleicher, a professor at Yale Law School who studies land use and urban development. In California, he says, the economic interests of homeowners are so entrenched that the state is stuck despite well-organized efforts at reform. The most recent attempt would have applied a plan similar to Minneapolis 2040 to the entire state. It was tabled in May after pushback from suburban legislators. "Once you've hit the point where you see these fast-accelerating property values," Schleicher says, "it gets harder and harder to do this."

Homeowners still vote in strikingly higher numbers than renters in the U.S. (Nationwide, the ratio in 2018 was about 3 to 1.) Foes of the 2040 plan who showed up at the vox.MN event are counting on returning people with their views to office. But, as the city's recent past shows, plenty of homeowners will go along with something that's not in their economic interest if they see change in a positive light.

Take David Brauer. He moved to Minneapolis in 1979 and covered the city as a journalist. For years, he says, local leaders tried to get any development they could going. Big corporations, such as General Mills Inc., had decamped for the suburbs, while a spate of homicides in the 1990s earned the city the nickname "Murderapolis." But steadily things came back. "We were lifted by the trends you see nationally—younger people bored with the suburbs," he says. Now that he's retired, Brauer and his wife are thinking about putting their single-family in south Minneapolis up for sale. "We want to stay in the neighborhood," he says, but there aren't many choices for those looking to downsize. That's why he's a supporter of the 2040 plan. If it creates the sort of housing options in the years ahead that boomers like him want, they'll move, making way for millennials—and their spawn. B

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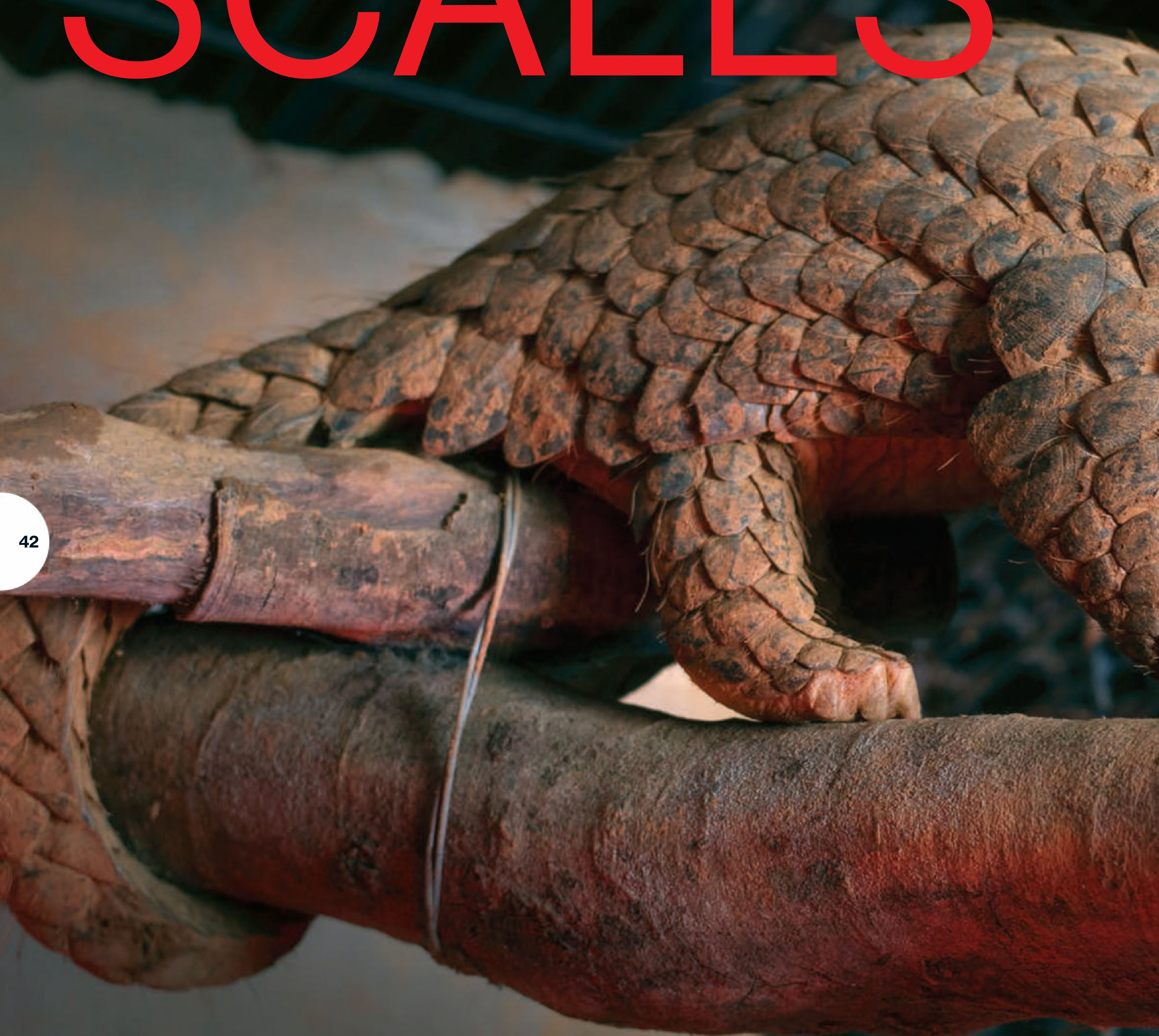

INJUSTICE

OF

An illicit global trade is endangering a rare mammal whose defensive maneuver makes it especially vulnerable to poaching. By Matthew Campbell Photograph by Olivier Laude

In November, customs agents at Hong Kong International Airport spotted something unusual as they X-rayed the baggage of a Chinese man who'd just arrived from Ethiopia. They told the passenger, 44-year-old Lin Jin-Bao, he'd have to open his suitcases before being allowed to board a ferry to his next destination, Macau. Inside, the agents found 24 tightly packed aluminum foil pouches. Each was filled with hundreds of mottled, brownish-red flakes—some shaped like jagged circles, others resembling tiny spades.

Lin was swiftly arrested. The suitcases contained 48 kilograms (106 pounds) of pangolin scales, a once-obscure commodity that's become wearily familiar to law enforcement agencies in Asian hubs. The pangolin, one of the only scaly mammals known to science, looks a little like a large gecko crossed with an artichoke. It's now believed to be among the world's most trafficked animals, the victim of aggressive poaching operations set up to serve demand for its scales, which are considered by some practitioners of Chinese and Vietnamese traditional medicine to have healing properties, and its meat—a status symbol in Vietnam.

Lin, whose cargo had an estimated street value of HK$189,000 ($24,100), pleaded guilty to importing a protected wildlife product without a license and received a 20-month jail sentence. He was small fry in an illicit industry that might be worth billions of dollars, but rare for being convicted. In April customs officers at a Singapore port terminal inspected a shipping container purportedly full of frozen beef from Nigeria and found just under 13 tons of scales, with a value they estimated at about $39 million. Less than a week later they pulled a similarly sized haul from a container that was supposed to contain seeds from the cassia plant. That many scales would have likely required the deaths of some 21,000 pangolins.

Trafficking experts point out with alarm that these seizures are indicative of an enormous global trade along a sophisticated network, reaching from poachers in Central Africa to smugglers in Nigeria to middlemen across Asia to consumers in China and Vietnam. Even optimistic wildlife activists concede that they're late to the problem. Until recently, they tended to focus on contraband from what are known in conservation circles as charismatic megafauna: species, such as elephants and rhinos, whose photogenic quality and symbolic import make drumming up public support and donor dollars comparatively easy. Only in the past decade did the rise in pangolin trafficking become apparent—a consequence of rising prosperity in consuming countries and, perhaps, ▶

A rescued pangolin at Save Vietnam's Wildlife in Cuc Phuong National Park

◀ poachers switching opportunistically as other species grew more difficult to trade.

"The number of animals being stripped from the wild is completely out of control," says John Scanlon, a former secretary-general of Cites, the main international organization for regulating trade in endangered species. "I fear they'll be wiped out before we've adequately responded."

Pangolins are a low-key marvel of the natural world. There are eight known species, with a geographic range that covers India, Southeast Asia, southern China, and much of sub-Saharan Africa. Most are nocturnal; all are toothless, relying instead on sticky, muscular tongues that can extend as long as their body. Most of the time, the appendage lies dormant in an internal sheath. When required, it can shoot deep into ant and termite nests with lethal speed and force, conjuring scenes of Lovecraftian horror. Pangolins also have claws that are well-adapted to digging for prey as well as specialized muscles that seal their ears and nostrils against incursion by insects. They're myrmecophagous Terminators, each capable of killing, by one estimate, as many as 70 million bugs a year.

Shy and typically solitary, pangolins can be found in a variety of habitats, with some species preferring to burrow and others fond of climbing trees, sometimes using their muscular tails for balance. Females typically give birth to a single offspring, after a gestation of several months or more, and each infant requires significant maternal investment. Until a juvenile pangolin is mature enough to fend for itself, it rides atop its mother's tail as she forages for food.

Evolution's other great gift to the pangolin is, tragically, its main attraction for poachers: its scales, a robust armor of keratin, the same material responsible for human fingernails and rhino horns. When a pangolin is threatened or startled, its main defense is to curl into a ball, hiding its soft underbelly (and, if necessary, an accompanying infant) inside this jagged thicket. YouTube clips show lions reduced to helpless incomprehension when an appealing-looking snack suddenly turns rock hard, impervious to tooth or claw. Unfortunately for the pangolin, though, it reacts the same way to humans, who can simply deposit a frightened victim into a sack like a beach ball.

Pangolins have proved difficult to track and count, making it hard to gauge how steeply their populations have declined. Their preference for trees and burrows makes them easily missed by camera traps, and unlike with other mammals, their eyes don't readily shine in the glow of a flashlight. One of the more comprehensive efforts to quantify pangolin poaching, a 2017 study by researchers from the University of Sussex and other institutions, produced only a very broad estimate that 400,000 to 2.7 million of the animals are hunted annually in Central Africa. Scientists don't need a precise count, though, to conclude that the pangolin is in serious trouble. The International Union for Conservation of Nature classifies the Chinese pangolin and the Sunda pangolin of Southeast Asia as critically endangered; of the other six species, two are listed as endangered and the remainder as vulnerable.

Poachers succeed where researchers struggle because they can sprinkle hundreds or even thousands of snares around a known habitat. Another reliable tactic is sniffer dogs, which can be adept at finding pangolins even in their burrows. Hunters go to these lengths because pangolin farming is universally regarded as nonviable. The animals reproduce slowly and unmanageably, and they're too easily stressed and susceptible to illness.

The major source countries are thought to include Cameroon, the Central African Republic, and Congo. As best as investigators can tell, much of the poaching takes place at relatively small scale, with loads consolidated into gargantuan cargoes by middlemen en route to port cities such as Lagos. One indicator of the smugglers' power: Cites considers shipments of elephant ivory larger than 500 kilograms to indicate the involvement of organized crime, a small fraction of the size of some pangolin-scale seizures. The best guess, according to Richard Thomas of Traffic, a U.K.-based organization that monitors the wildlife trade, is that the culprits are "organized Asian criminal syndicates who must have a pretty extraordinary sourcing network."

Pangolin scales

For the most part, it's just a guess. Prosecutions of smugglers are much rarer than seizures of their wares, and no law enforcement agency has come close to identifying the Cali cartel of pangolin trafficking. And just as with drugs, there's every reason to believe that as long as demand for scales and meat persists, so too will illicit efforts to meet it.

Lan Ong Street, in Hanoi's Old Quarter, is the traditional-medicine capital of Vietnam, a stretch of dark, narrow shops packed into the ground floors of crowded tenements. The vendors sell a panoply of natural remedies: cordyceps mushroom for impotence, ginseng for stress, morinda root for joint pain. Not long ago, they would have displayed pangolin scales, which were sold more or less openly for arthritis and asthma and as an aid to lactation. Now the scales are gone, or at least hidden; on a recent visit, five Lan Ong shopkeepers said they no longer sold pangolin products for fear of punishment. Since 2017 Vietnam has imposed stiff penalties for selling the animal, in keeping with a trade ban accepted by the 182 nations that are party to Cites.

The moratorium on international trade doesn't extend to sales within countries. Scales remain legal in China, though officially at least they must be drawn from an existing state-administered stockpile—a sort of Strategic Pangolin Reserve. Activists have doubts about how thoroughly this requirement is enforced and worry that smuggled scales are being used to replenish the stockpile.

ATHIT PERAWONGMETHA/REUTERS

The best guess is that the culprits are “organized Asian criminal syndicates who must have a pretty extraordinary sourcing network”

Pangolin scales have been used in Chinese medicine since at least the 16th century. Until relatively recently, the demand could be met by small-scale poaching of local populations. “What we’ve seen in recent years is growing prosperity in those regions, which is a good thing, but it does mean they’re able to afford things that were previously unobtainable,” Thomas says.

Persuading Chinese and Vietnamese consumers to give up pangolin will be the work of many years. A survey by the charity WildAid of 3,000 Chinese city dwellers in 2017 found that 50% believed pangolin products have medicinal value. (They almost certainly don’t: You’ll get as much benefit from eating your fingernails.) Despite their uselessness, scales remain listed in the official pharmacopeia issued by China’s health regulator, and according to WildAid more than 60 drugs approved in the country contain pangolin products, indicated for conditions such as swelling, hemorrhoids, tight muscles, and poor circulation. The next edition of the pharmacopeia is due in 2020, and activists hope the scales will be removed from that version or a subsequent one, as rhino horn and tiger bone were in the 1990s.

Environmental organizations are doing what they can to educate the public. WildAid and the Nature Conservancy have commissioned ads featuring the Chinese actress Angelababy, as well as an adorable one starring Jackie Chan as kung fu instructor to a trio of CGI pangolins. WildAid has also deployed educational videos in Vietnamese shopping centers and airports and convened Chinese medicine experts for seminars on alternatives to scales.

Stamping out demand entirely could prove impossible, though. Ad campaigns discouraging consumption of rhino horn and elephant ivory for more than a decade have seen some success, but neither trade is close to disappearing. A recent study by Traffic showed that ivory jewelry was still readily available in Vietnam’s stores and social media channels, while another survey of the country, commissioned by the U.S. Agency for International Development, reported that 6% of respondents had purchased rhino products in the preceding year.

At Cuc Phuong National Park, a sweltering nature preserve in northern Vietnam, a group of veterinarians, zoologists, and volunteers is working to rehabilitate pangolins confiscated from trafficking operations and to help revive the country’s population. Save Vietnam’s Wildlife (SVW) was founded in 2014 by Nguyen Van Thai, a conservationist who’d been working with pangolins in the park for nearly a decade. It has about 40 to 50 of the animals on-site at a time, many of which arrived dehydrated, malnourished, and traumatized.

Pangolin gourmands prefer the meat be freshly killed, as with lobsters, so busts—conducted by the Vietnamese authorities with increasing frequency—often turn up live animals. Some come from as far away as Borneo. The conditions of their carriage are appalling, with pangolins sometimes confined in shipping containers, marinating in their own waste. Others have been force-fed to fatten them up. Serving pangolin meat, Nguyen complains, still “is seen as a way to impress someone with something rare, something special.”

After they arrive at SVW, pangolins spend 30 days under quarantine in concrete-enclosed pens. They may require urgent medical care: rehydration therapy, often, and sometimes the removal of eyes damaged by malnutrition or the amputation of limbs or tails wounded by snares. Next to the door of each pen, a dry-erase board lists the occupant’s date of arrival, identification number, and health issues such as cloudy eyes or lingering wounds. On one, the problem is listed as simply “stress.”

The worst-off animals spend time in an intensive-care unit, tended by a team of veterinarians whose pangolin expertise is evolving, to say the least. “We do a lot of MacGyvering. You have to make things work,” says Jessica Jimerson, who came over from the Houston Zoo to manage SVW’s veterinary clinic; her right bicep features an impressively detailed tattoo of a balled-up pangolin. Jimerson recently performed the clinic’s first pangolin blood transfusion, drawing from a strapping male specimen to aid a female on the verge of death. That procedure was a success, but not every patient can be saved. “We’re so far behind the eight ball by the time we get them,” she says.

The healthy pangolins at SVW while away their days in special sleeping cubbies with narrow apertures, a design intended to mimic the pitch-black conditions of a burrow. At night they’re fed a dish of frozen ant eggs, placed just inside the doors of the spacious enclosures they roam while awake. Within a few moments they emerge from deep inside their pens, positioning themselves above the bowl and hoovering up the meal with methodical strokes of their tongues. After that they’re left to explore the tree trunks and branches threaded through their living areas. Staff sometimes hide “enrichment toys”—bamboo pole lengths stuffed with ants, covered at each end with a disguise of leaves. The idea is to get the residents sniffing for meals to revive their foraging instinct for when they’re released back into the wild. They typically stay at SVW for a couple of months before that happens.

Nguyen’s operation is something of a conservation showpiece, supported by Sydney’s Taronga Zoo, the U.S. Fish and Wildlife Service, and Humane Society International. Funding is easier to come by than it once was, with the pangolin marching up the list of conservation priorities. “Before a few years ago, when I went to North America or Europe to talk about pangolins, people thought I meant penguins,” Nguyen says with a laugh.

The work is still arduous and its success difficult to measure. SVW has rescued more than 1,000 pangolins and returned the majority to the wild; how they fare afterward is hard to know. Nguyen’s goals are necessarily modest. “We’re trying to slow the speed of the decline, and hopefully in the next few years we can stop the decline and start a recovery,” he says. “We still believe the things we do can make a difference.” Ⓑ —*With Giang Nguyen and Daniela Wei*

LANCE ARMSTRONG CHAS

THE FORMER CYCLIST WANTS YOU TO FORGET ABOUT THE DOPING AND FOCUS ON HIS PODCAST. BY MAX CHAFKIN PHOTOGRAPHS BY CAROLINE TOMPKINS

The theme of last year's Global Volatility Summit in New York was a carnival. Attendees at the annual conference, put on by the hedge fund Capstone Investment Advisors, were treated to talks and panels on quantitative investing and the impact of the trade war. There were diversions such as the "VIX Rollercoaster," "the Wheel of Tax Misfortune," and "Policy Skee Ball." Also, Lance Armstrong showed up. "That last conversation was amazing," the 47-year-old former cyclist said as he settled into a chair on the stage at Manhattan's Chelsea Piers, referring to a six-person panel discussion on tail hedge strategies. "I understood everything."

Self-deprecating humor doesn't come easily to Armstrong. Perpetually stone-faced and quick to anger, he was known during his professional cycling career as a heroic survivor of late-stage testicular cancer who went on to win the Tour de France, cycling's biggest event, a record seven times. He was also, of course, a cheater—the leader of a team that, according to the U.S. Anti-Doping Agency, "ran the most sophisticated, professionalized, and successful doping program that sport has ever seen." Armstrong disputes that his doping was unprecedented—it was part of a larger culture of doping in cycling, he's long argued—but not that he cheated nor that he crossed ethical lines in his attempts to silence critics.

Former teammates turned on him, and he finally admitted to taking drugs in a 2013 interview with Oprah Winfrey. Armstrong was stripped of his cycling titles and dropped by Nike Inc., his longtime sponsor. His cancer foundation, Livestrong—which had worked with the apparel giant to turn yellow wristbands into a global virtue signal—cut ties with him. (The charity has continued to operate, but in a diminished, Lance-free form.) The U.S. Postal Service had sponsored Armstrong's team during the glory years; in 2013 the federal government joined a fraud lawsuit against Armstrong and the U.S. Postal team manager, Johan Bruyneel, seeking to recover $100 million in damages.

In 2016, with the trial looming, Armstrong devised an ambitious plan to un-disgrace himself. Banned from professional cycling races, he created and started riding in his own unsanctioned cycling events. Unable to land a broadcasting gig, he started a podcast and covered the Tour de France himself. Dropped by the sponsors who'd paid him about $20 million a year to promote their wares—and then sued him for fraud—he began selling his own cycling gear under a new brand, Wedu.

Amazingly, given the depth of Armstrong's disgrace, his plan seems to be working. His podcast, *The Move*, was near the top of Apple's podcast charts during the Tour de France in July. It was No. 3 among sports shows as of July 19, just ahead of Bill Simmons's show and all of ESPN's podcasts.

A podcast might seem an unlikely vehicle for a business comeback, especially since Armstrong himself is an amateurish broadcaster, sometimes forgetting or badly mispronouncing the names of riders and French towns, sometimes going off on wild tangents. But it's 2019, and podcasts are an increasingly influential medium, minting celebrities, capturing a growing share of the radio audience—about 90 million Americans listen to at least one each month, according to Edison Research—and sending listeners and advertising dollars to other platforms. Armstrong's podcasts, like many popular radio shows these days, also appear in video form on YouTube, where they can attract hundreds of thousands of viewers.

In each of the past two years, *The Move* generated somewhere around $1 million in revenue during the three-week Tour de France through an advertising partnership with Patrón tequila and a half-dozen smaller sponsors.

Armstrong's speaking requests are coming back, too, even if they're a little outside his comfort zone. I'd been invited to the New York conference by his longtime manager, Mark Higgins, who said it would give me a chance to see this new side of Lance. Onstage, with 300 or so finance types staring at him, he looked uneasy, and he became visibly irritated when the interviewer, Ryan Holiday, the author of *Trust Me, I'm Lying* and *Ego Is the Enemy*, asked him to give advice to finance professionals based on his past dealings with the government.

Armstrong grimaced, but he played along. If you're guilty, he said, avoid emphatic denials. "If I'd just doped to win a bike race, like 200 other guys did in the same bike race, we wouldn't be sitting here right now," he said. "But those 199 other guys didn't get up in front of the world and take everything on, and be litigious, and, to be honest, be a total prick."

Armstrong's final reckoning with his past behavior came the following month, when he and the U.S. government reached a $5 million settlement. The comparatively small penalty was seen as a victory. Armstrong seems to agree. "They wanted a hundred," he tells me. "And they left with five."

With the lawsuit squarely in the rearview mirror, he announced he was starting a venture capital outfit, Next Ventures, which has raised about $25 million of a planned $75 million, according to a July Securities and Exchange Commission filing. Investments include a stake in Spar Technology Corp., which makes an iPhone app that allows users to compete in physical challenges against their friends for money, and PowerDot, a $200 "recovery and performance" device that stimulates muscles with electrical ▶

ES REDEMPTION

◀ pulses. During the Tour, Armstrong has talked up both on his daily episodes of *The Move*. "Tim Ferris, Chris Sacca, Gary Vaynerchuk—they all do this," he says, referring to the self-help author, the former *Shark Tank* star, and the social media guru, respectively. "Nobody does it specifically dedicated to this world—endurance, outdoors, health and fitness."

We're speaking in the sunroom of a modest bungalow in a slightly sketchy part of Austin, aka Wedu Sport's headquarters. Armstrong is dressed casually—shorts, running shoes, white T-shirt—for a podcast taping with John Furner, chief executive officer of Sam's Club. He recorded the episode in a shed behind the house that's been retrofitted with soundproofing, audio equipment, and cameras for YouTube. It's not much, considering Armstrong was once one of the best-paid athletes in the world, but he sees it as the beginning of something new—a sort of DIY Nike that will encompass media, events, and apparel. "It's f--ing awesome," he says of the popularity of his podcast. "It feels like all is not lost."

"I don't wanna lie: I don't want to not talk about that," Armstrong said, referring to the fraud trial, on a Wedu podcast called *The Forward*, which appeared in iTunes and other podcast apps in 2016. He acknowledged it could bankrupt him. "That's a big deal for me and my family. But the goal is to get that part of life behind me and move forward. That's the name of this thing."

It was the day after Christmas, and Armstrong was in a reflective mood. At the time the crew consisted of Armstrong and Higgins. (Headcount at Wedu has since doubled, to four.) Most of the guests on the show so far had been Armstrong's friends. The mix was eclectic: tennis great Chris Evert, historian Douglas Brinkley, musician Seal. Episodes were posted every few weeks, mostly recorded in Armstrong's wine cellar, on a laptop. The show, he told his listeners, had attracted more than 1.5 million downloads in its first six months—a big enough audience to sell to advertisers, though Armstrong said he had no immediate plans to do so. "I don't want you all to think that this is a money grab for me," he said. "I know how people view my situation—the last four years of my life."

Eventually though, he said, he hoped the podcast would generate revenue for Wedu. There would be events, media, and merch. And—in case anyone doubted that Armstrong was reclaiming *all* of his old empire, which had merged his athletic prowess with his capacity for raising money for cancer patients—he hinted at a charity component. "Dear cancer community," he said, his voice breaking. "I want back in."

During that 2016 Christmas episode, and in interviews since, Armstrong has presented his decision to launch a podcast as a spur-of-the-moment thing. Higgins had suggested the idea years earlier, but Armstrong resisted until June 2016, when, on a lark, he posted his first interview, a conversation with Tim League, a friend and the founder of Alamo Drafthouse Cinema LLC.

In reality, it was more considered. Armstrong tells me he'd wanted to find a way back into the business world for years but felt helpless. "Everybody exited: the backers, the sponsors, the partners, my foundation," he says. "We were in this place for years where it was like, F---, we got nothing."

Armstrong first began contemplating a comeback around 2015, when he contacted Strava, developer of the fitness app he was using to track his daily runs, after an overly aggressive fan used it to harass him. When he asked the company for help, Armstrong recalls one of the company's founders mentioned something else in passing: Armstrong had the biggest fan base of any Strava user. (Today he has 117,000 followers. Tejay van Garderen, the top American rider, who dropped from this year's Tour after a crash during the seventh stage, has fewer than 25,000.) "I was running four miles a day," Armstrong recalls thinking. "Why would you wanna watch that?"

But the real turning point came the following year, when a friend at a major sporting goods company covertly passed him an internal market-research study of bike customers. "It was like 3,000 respondents," Armstrong recalls. "They asked about all kinds of random sh--. Do you ride a mountain bike or a road bike? How old are you? Where do you live?"

The survey also asked respondents to name their favorite professional cyclist, offering 10 choices, including Chris Froome, a four-time Tour de France winner widely regarded at the time as the world's dominant road cyclist, and Greg LeMond, the legendary 1980s Tour winner. Armstrong was the overwhelming favorite, despite all the controversies. "It wasn't even close," he says. "The people are out there. But they don't have a bike race they can attend, they don't have a [jersey] they can buy."

Armstrong set about rectifying that. He got in touch with an old collaborator, James Selman, formerly of the Portland, Ore., office of Wieden + Kennedy and a key designer behind Nike's Armstrong ads. Armstrong and Selman had stayed in touch after the designer left the agency world to take a job at Apple Inc. Armstrong asked Selman, who'd started his own design studio, to work up an idea for a brand aimed at enthusiasts of outdoor endurance sports. Armstrong picks up a book Selman produced with Wedu's logo and slogan on the cover—"Solidarity for the solitary"—and starts flipping through it. On each page there's an inspiring photo and aphorism, which Armstrong reads off at a rapid clip. "Forward, never straight. Never take counsel from fear. It's called Wedu, not 'we don't.'" Selman's work, coupled with Armstrong's

"EVERYBODY EXITED: THE BACKERS, THE SPONSORS, THE PARTNERS, MY FOUNDATION. WE WERE IN THIS PLACE FOR YEARS WHERE IT WAS LIKE, F---, WE GOT NOTHING"

discovery that he still had an audience of fans, gave him the confidence to start Wedu in May 2016. The sponsors, Armstrong told himself, "are not coming back. So I'll just create my own thing."

In 2017, with *The Forward* generating buzz, Armstrong began selling T-shirts and trucker hats featuring Selman's design: a forward arrow with a crick in the middle. He also launched his second podcast, *The Move*, beginning with daily coverage of that year's Tour de France. The episodes featured Armstrong and longtime Austin radio personality JB Hager. The crew eventually included Bruyneel and George Hincapie, a teammate who later turned accuser. "We went through a period where we didn't talk much," says Hincapie, who in addition to his podcast duties co-owns Hincapie Sportswear Inc., an apparel company, and the cycling-themed Hotel Domestique in Travelers Rest, S.C. (In cycling, *domestique*, French for "servant," refers to a lesser rider who fetches water bottles for the team leader.)

Armstrong taping with *The Move* co-host Hager

The same year, Armstrong and Higgins held two Wedu rides: the Aspen Fifty, near Armstrong's Colorado summer home, and the Texas Hundred, held in the Hill Country north of Austin. The events, which cost participants about $200 each for the Aspen race and $100 for the Texas one, are proof that Armstrong still has committed fans. At last year's Texas Hundred, some 500 riders showed up, including a Seattleite who rode a vintage U.S. Postal bike. After finishing, Armstrong changed out of his Wedu Lycra and mingled for an hour or so with the attendees, taking selfies and signing autographs, including one on the frame of the superfan's bike. Before leaving, Armstrong noted the turnout—the race had attracted 70 more people than the previous year's edition. "Moving in the right direction," he said.

In addition to the event revenue, apparel sales, and advertising, Wedu makes money through an NPR-style membership program, where superfans pay $60 a year to get a T-shirt, some stickers, early access to gear, and special members-only podcasts. So far, Higgins says, thousands of people have signed up. It's all modest for now, but as the brand gets better known—and as his moral failures fade into the past—he expects merchandise sales will improve. "We were very conservative on merchandise," he says, referring to the modest selection and limited quantities Wedu sold initially. "We won't be conservative again."

Part of the appeal of Armstrong's podcasts is that he's strangely, unexpectedly vulnerable. During his career, he tended to treat press conferences like depositions and was prone to angry outbursts. ("You are not worth the chair that you are sitting on," he once snapped at a British newspaper columnist.) While he was speaking at the Volatility Summit, 30 minutes or so after meeting me backstage, Armstrong gave me a somewhat awkward shout-out from the stage. "I hate the media, I'll just be honest," he said after mentioning me by name. ("I felt bad saying that," he says later.)

Of course, now, in addition to hating the press, Armstrong is the press. He says he tries to avoid adopting any kind of adversarial position in interviews, but he sometimes finds himself rooting for controversy despite himself. During the 2017 Tour, when a top sprinter, Peter Sagan, elbowed another well-known rider, Mark Cavendish, who fell and broke his shoulder, listenership to the podcast spiked. "That's what's f---ed up," Armstrong tells me. "You wake up and think, We need a crash or something."

On *The Forward*, he seems especially drawn to exploring shame, both his own and his guests'. In an interview with Mia Khalifa, a former adult-film star turned social media influencer, Armstrong likened the stigma of sex work to his own struggles. "I have a ton of empathy for you," he said, after Khalifa talked about her efforts to put the past behind her. "When I open articles about you, every one of them starts 'porn star.'" He went on, saying he, like Khalifa, was trying to reinvent himself. "If you put my name in Google, and pull up 10 articles, every one of those articles starts 'disgraced.'"

If Armstrong believes he's rebuilt some part of the sports business clout he lost from Nike with Wedu, losing his status as a great cancer warrior still seems to genuinely sadden him. He'll sometimes record video messages for patients who follow him on social media, but he's less certain about his prospects as a philanthropist. "Livestrong is never going to reach out again," he says. "And it almost feels like since they're out, nobody else will either."

He says that's OK. "I'm happy doing what I do, and I'm happy with what I did," he continues. "The bank is full in my heart." Ⓑ

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Chris Rovzar

Businessweek.com

Felix Wom, chief of the Asmat village of Syuru, looked intimidating in his grass skirt and fur headdress, bird feathers protruding from the side. A necklace of sharp animal teeth stretched across his bare, muscular chest, and his nose held a large curled ring. This ornament was made of seashell, but in the past it could have been carved from human bone.

Twelve miles off the sparsely populated south coast of the Indonesian province of West Papua, Wom sat, unsmiling, for the first time on the deck of a cruise ship. The 120-passenger *Coral Adventurer* was on an inaugural voyage to West Papua, which encompasses most of western New Guinea and other nearby islands, and the ship's captain had invited Wom and a handful of other village elders onboard to calm any fears about intruding foreigners. He offered them a look around, hats with baseball logos, and tins of butter cookies to take home.

"They want to have a peek at us and really want to see the ship," says tour lecturer Kathryn Robinson, a retired anthropology professor at Australian National University whose research focus includes Indonesia. "If you say no, because that would make us feel uncomfortable, that doesn't work.... Hospitality is a big thing in Indonesia."

The chief already understood it—the symbiotic relationship between locals and visitors. "We can keep our culture because people come to see it," he said through a translator, acknowledging the importance of the money the cruise line brings to his village. "We would be very happy to have more ships coming." As I walked away from our chat, the chief raised his chin, looked ahead at nothing, and let out a long rhythmic call.

"It's like anywhere where people are performing their culture. It can be uncomfortable, but it can also promote mutual recognition"

The Asmat people once were known as great warriors who used headhunting and cannibalism in their warfare, cultural rituals that ended for good about 60 years ago with the arrival of the Indonesian government. Photographer and art collector Michael Rockefeller, one of Nelson's five sons, may have been a victim of cannibalism after his boat overturned near an Asmat village in November 1961, according to the book *Savage Harvest*, by Carl Hoffman. His body was never found.

The culture lives on in part through performance—which is how the government likes it, says Stuart Kirsch, a professor of anthropology at the University of Michigan who specializes in the Pacific region. "When you're not there, they're wearing Rolling Stones T-shirts from the global used-clothing market, cutoff jeans, and worn-out flip-flops," Kirsch says. West Papua has an independence movement, he says, but "that's typically scripted out of the tourist narrative."

Add the navigational difficulties of swirling winds, shallow seas, shifting sands, and multiple reefs, and it's no wonder travelers seldom stop by. That our diesel-electric vessel was here, near the equator in the middle of hot nowhere, is a result of the expanding market for expedition cruises. Such small-ship

Asmat men from the village of Syuru arrive in canoes to greet—and intimidate—visitors

travel has drawn particular interest among baby boomers willing to pay fares that often top $1,000 a night for meaningful soft adventure experiences in hard-to-reach destinations.

In this growing niche of the cruise market, 39 expedition ships are set to make their debut from now to 2024, according to *Cruise Industry News*. Big cruise companies are dipping their toes into the lucrative arena. Royal Caribbean Cruises Ltd. acquired four expedition ships (as well as five ultraluxury ships) last year when it paid about $1 billion for a two-thirds stake in Silversea Cruises Ltd. "It probably increased their fleet capacity by 2% but increased their profit flow by 6%. The profit per ship is that much higher," says Bloomberg Intelligence senior analyst Brian Egger.

Most of the new boats are polar-class vessels bound for popular cold places such as Antarctica, Iceland, Greenland, and the Canadian High Arctic. But other cruises are sticking to the tropics. As a result, some of the most isolated people on Earth are seeing more visitors.

Wom's village of Syuru, with its rustic houses and boardwalks crossing the swamp, will welcome four shiploads of cruisers this year, a number agreed upon by the government and tribal representatives. Timing is important in the expedition business: The May itinerary of our round-trip cruise from Darwin, Australia, was tweaked so we could beat a ship owned by French line Ponant SA by a day.

We arrived early in the morning after two sea days churning north from Darwin. Passengers boarded the ship's two hop-on, hop-off tenders and passed mangroves along a brackish river on our way to the village. As we approached, dugout canoes from several clans emerged from shore. Athletic men and young boys paddled from a standing position, most in grass skirts, their faces and bodies covered with war paint, which assures the warriors their ancestors will protect them.

Men reached for the sides of our boats. Paddles thumped against wood in unison with war cries. "They are performing themselves as violent people," Robinson said. "They are

OPENER AND THIS PAGE: COURTESY CORAL EXPEDITIONS

saying, 'This is who we are.'" If they were trying to look scary, they succeeded with me, especially as the flotilla increased to dozens of canoes.

Onshore, men performed a traditional ceremony to launch a new canoe. It was a frenzy of hip-swinging dancing, raised spears and shields, chanting, yelping, and drumming. Women in grass skirts, some topless, danced in support. Passengers stood on the edge of the ceremony, the action only somewhat diluted by some of the villagers holding cellphones. They were taking pictures of us, as we were of them. And what a sight we were in our "adventure" wear, sun hats, and sunglasses, slathered in sunscreen and bug spray. I hadn't thought of myself as a cultural attraction, but locking eyes with a half-naked elderly woman, I realized we both were probing another world. I felt out of place in this one.

Cruisers pulled out rupiah to purchase Asmat art, which is sought by museums and collectors around the world. (Rockefeller was seeking pieces for the Metropolitan Museum of Art's collection of primitive works when he disappeared.) The art traditionally tells the stories of ancestors, but when I picked up a figurine for about $15—some works went for quite a bit more—and asked about its symbolism, the shy artist said it was just something he imagined.

Oswald Huma, a tour agent from the island of Savu, west of Timor, was hired by Coral Expeditions, based in Cairns, Australia, to help map out our "Warriors and Wildlife" itinerary. He said the most common question the villagers ask is, "Why do these people come to see us?" He struggles with the answer, usually replying that travelers want to buy the wood carvings. He doesn't want to mention the attraction of a history of headhunting.

Robinson says the interactions bring much-needed income. She's noticed that, since she first visited the Asmat a few years ago, conditions seem to have improved. "The way I see it, for these people who are miles away from any of the circuits of capital, tourism is helping them to realize that they do have something the world will buy, which is their culture," she says. "We might have anxieties about it. But all through Indonesia, people hope that tourism is going to bring income into these remote areas. These people are separate from the exigencies of the world. Pristine and untouched has also got its negatives."

The visits also provide the Asmat an opportunity to practice their culture, Huma says. Elders traditionally teach youth the group's customs by performing ceremonies; paying customers are an excuse to do so. Kids also see the outside world and have an opportunity to practice English, "so they can go out and seek employment and send money home," he says.

"It's like anywhere where people are performing their culture," says Kirsch, the Michigan professor. "It can be uncomfortable, but it can also promote mutual recognition. The Asmat are well known for their art, and these encounters can stimulate appreciation for the artistic style."

Agats, a larger town we visited nearby, has imported goods for sale to locals. Among them are rice, which isn't a staple of the Asmat diet but has become popular, as well as electric motorbikes, tea, sugar, and cellphones. Given the spotty signal, the phones are mostly used as cameras and for playing music.

Huma had spent months in his boat on the Arafura Sea south of West Papua, sometimes in rough seas, convincing leaders in remote villages to welcome the *Coral Adventurer*. He also arranged for English speakers to meet us at each of four stops. Many are teachers, and some traveled far for the jobs as guides.

In the village of Sangliat Dol, on Yamdena Island in the ▶

The Route of the *Coral Adventurer*

Extreme Itineraries

Check out these other adventure cruises, priced per person, double occupancy.

Antarctica on Quark Expeditions' *Ultramarine*
Debuting in late 2020, Quark's polar ship—complete with two twin-engine choppers to drop you off for heli-skiing—will explore Antarctica. *Prices not yet available; quarkexpeditions.com*

Arctic Spring on the *National Geographic Endurance*
Sailings in April 2020 on Lindblad Expeditions' 126-guest ship bring you to Norway's Svalbard archipelago just as the light is starting to return and the polar bears are waking up. *11-day sailing from $11,600; expeditions.com*

Galapagos on the *Silver Origin*
Purpose-built by Silversea Cruises for trips to the Galápagos starting in July 2020, *Silver Origin* will provide a posh floating base camp for visiting Darwin's finches and blue-footed boobies. *Seven-day sailings from $9,450; silversea.com*

Greenland and Iceland on the *Scenic Eclipse*
This "Discovery Yacht," debuting this summer for Australian-owned Scenic, has a submarine and two helicopters for exploring glaciers and fjords, plus other toys. *12-day cruises from $12,295; scenicusa.com*

The Kimberley on the *Coral Adventurer*
Red cliffs, ancient rock art, towering waterfalls, and saltwater crocodiles all turn up on April-through-September sails around Western Australia's remote northern coast. *10-day cruises from $7,072; coralexpeditions.com*

◀ province of Maluku, the push and pull of multiculture life was magnified. During a one-hour bus ride beforehand, our guide said, "Visitors are rare, as it destroys the daily life."

We were met by an enthusiastic crowd of costumed women in embroidered white peasant blouses and sarongs. Some had arrived hours earlier from nearby villages to greet us with a dance in which they waved scarves and small towels. They welcomed us as "sons and daughters of the village."

A smiling older woman grabbed my arm, and to the accompaniment of drums and singing, the crowd danced past tin-roofed homes to a megalithic ceremonial stone boat in the village center. Shouting, shoving, even screaming ensued, and cruise passengers were hustled off to the side.

Seating in the boat is based on status, but it can be contested. A man had taken a position someone else felt was his. Government officials moved the arguing men out of view so a smaller group could perform a planned ceremony honoring our ship "elders."

The fight—with yelling and shoving—was the rawest experience of our cruise. But for the locals, there was a price to be paid. A government official threatened to file a report, saying there would be consequences. Our ship withheld bags of school supplies, soccer balls, and clean sheets and towels for the health clinic, similar to gifts we'd delivered to other villages. The donations to Sangliat Dol returned with us. "We don't know when we left the village if they would fight over a soccer ball," Huma said. "We don't want a bad thing to happen."

No one on the *Coral Adventurer*, not even the captain, had sailed the West Papua itinerary before, a route designed to mimic a portion of Dutch explorer Abel Tasman's voyage roughly 375 years ago. Coral Expeditions, a 35-year-old company owned since 2014 by Kallang Capital Holdings Pte. of Singapore, is known more for its cruises of Australia's Kimberley region and the Great Barrier Reef.

Tenders ferry passengers to isolated beaches along the coast

When you commit to an expedition cruise to a remote locale, you can expect long days at sea getting there. Wi-Fi connections are sporadic, and there's no satellite TV. Lectures are the main shipboard activity. A marine biologist prepared us for the world's largest fish, whale sharks—who apparently didn't get the memo about our arrival. We looked for them without success in Triton Bay in the southwest corner of West Papua. The passengers, mostly Australians over 60, relaxed onboard in modern cabins and lounge areas accented with African wood and Italian marble. Hot water flowed from showers, cappuccinos from coffee machines. Dinner was a three-course affair, with Australian wines.

It was sticky and hot when we explored the tidy dirt streets of the Muslim village of Arguni (population 227), in the Fakfak regional district. Women, their heads covered, and their grandchildren offered warm but cautious smiles. Most of the village's adults were as far away as Bali and Jakarta for work or study. Although it was Ramadan, women had risen early to prepare fish dishes and cakes made of tapioca.

"You are not tourists anymore, but part of our family," King Hanafi Paus Paus told the crowd. Later, in his small house, where the front room is furnished with plastic patio chairs and the walls are decorated with photographs of his forbears, the king said tourism is improving. Another ship had arrived five months ago. Ships have a "good effect," he said through a translator. "It protects the history, plus we get money. People leave for work, and now work comes to us." The king's two sons are in high school in the town of Fakfak about 30 miles away. He goes there in his boat, then uses a car he keeps in town to get around.

In all the villages, locals attempted a few words of English, and there was a warmth and sincerity to our encounters—even if most amounted to us staring at them and them staring at us.

Ngilngof village, on Kai Kecil Island, provided the welcome that felt most linked with the outside world: Women in bright purple jackets and long gold skirts danced with delicate hand movements as a ritual leader in black raised a coconut, invoking ancestral protection for the island's natural resources. Meanwhile, on a 3-mile-long beach with soft, white sand, plastic chairs were set up under a tent you could rent for the afternoon. Snack bars sold cold beers and Diet Cokes. Ⓑ

COURTESY CORAL EXPEDITIONS

Trickle-Down Ergonomics

Pitchers that are perfectly designed from handle to spout
By Ami Kealoha
Photograph by Corey Olsen

1 TARGET
With its speckled surface and sturdy shape, this earthenware pitcher could pass for an antique-store find, one with a certain laid-back country charm. Use it as a vase for flowers on a rustic table or to water your houseplants. *$20*

2 BERNARDAUD
The storied French brand pairs its Limoges porcelain with silhouettes of an antebellum-era black woman, recognizable as the work of artist Kara Walker, who created it as part of a 2014 exhibition. Limited to an edition of 1,000, each comes numbered and signed. *$721*

3 WIENER SILBER
Designed in the 1930s by the Viennese architect Otto Prutscher, this quart-size art deco carafe has hand-worked, undulating lines on the surface that rival the richness of its gold-plated interior. It can also come without gold for a more subdued effect. *$9,650*

4 VONSHEF
Although the brushed-gold exterior and criss-crossing etched lines are the first things that catch your eye, it's the built-in lip to trap ice that will quickly make this your favorite dinner party tool. It's narrow—with a 6.5-inch diameter—but still holds almost 2 quarts. *$22*

5 KAHLER
Norwegian designer Hans-Christian Bauer based his collection for Kahler on a minimalist, vertically lined pattern by early 20th century Danish painter and designer Svend Hammershoi. The 42-ounce pitcher also comes in white. *$74*

PROP STYLIST: MEGAN KIANTOS

From left: the Type 64; at a road race in Korneuburg, Austria, on April 6, 1952

The $20 Million Porsche That May Not Be a Porsche

A car built for the Nazi Party in 1939 has become the most polarizing vehicle to go to auction in years. *By Hannah Elliott*

In mid-August during Pebble Beach, the world's most prestigious car show, a vehicle that RM Sotheby's is calling the Porsche Type 64 is expected to sell for about $20 million. It promises to be the most controversial sale of the year.

Price isn't the issue. The auction estimate from RM Sotheby's is far shy of the record $48.4 million paid for a 1962 Ferrari 250 GTO. The Type 64's price would still be rarefied, more like that of the 1963 Aston Martin DP215, which sold for $21.45 million last year.

It isn't the car's design, either, that's prompted public debate on Instagram and in discreet discussions between auto brokers and their clients—though it does look like a UFO.

Even the fact that the Type 64 was commissioned by the Nazis is unsurprising, grim as that may sound. Many well-known vehicles were developed for Nazi purposes, including the Volkswagen Beetle and Mercedes-Benz 770.

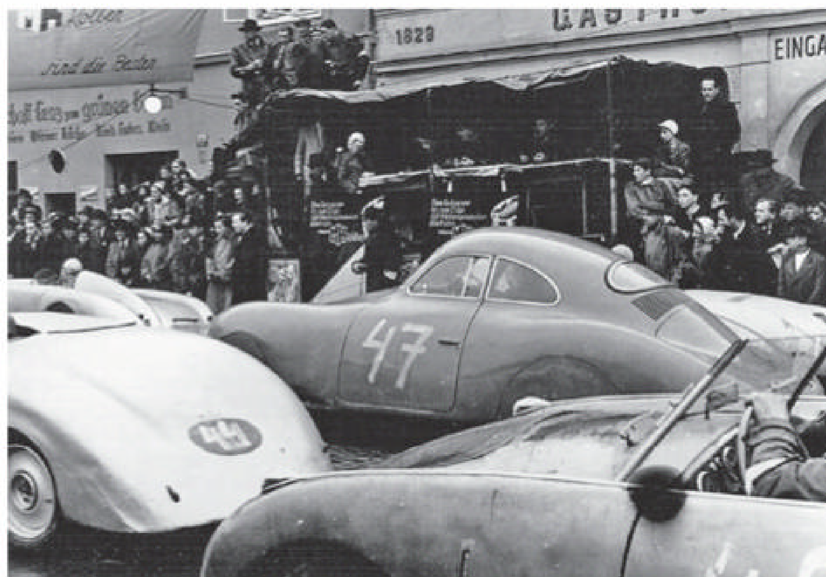
The conflict that has wealthy collectors whispering is that the Type 64 may not actually be a Porsche. "It's not," says Andy Prill, a mechanical engineer and owner of Prill Porsche Classics in England. "This is one thing I've been at pains to point out to people." Prill conducted the presale inspection for RM Sotheby's, compiling a 53-page dossier on the car. His take: While the Type 64 is a direct ancestor of the Porsches that came later, its mixing-bowl heritage disqualifies it from the same distinction.

In 1939, Ferdinand Porsche was a designer for Mercedes-Daimler (founded in 1926) and Volkswagen (1937), among others. He built the Type 64 as a commission from the National Socialist Motor Corps. NSKK chief Adolf Hühnlein had hoped the Type 64 would win a Berlin-to-Rome race planned to

COURTESY RM SOTHEBY'S (2)

celebrate the just-signed Italian-German Fascist agreement and showcase Deutschland engineering. But the race was canceled when war broke out, so Porsche—a member of the Nazi Party and the SS who later spent time in prison for war crimes—used it as his daily driver.

Along with its tiny two-seat interior, split-window windshield, and wide black steering wheel, the car originally consisted of VW parts and special components made by Porsche himself. It was built on a modified VW chassis, using a body made by German fabricator Reutter, with a VW engine customized to enhance power. In 1948 it underwent styling modifications at the coachbuilder Pininfarina. Later, parts added from Fiat and the Austrian conglomerate Steyr altered it further.



RM Sotheby's is calling it a Porsche nonetheless, even though the Type 64 was born years before the company was founded in 1948. The Porsche DNA is there—the round headlights, gently curved roofline, and smooth sides that define the brand's modern cars were evident even then. In his later years, Porsche referred to the Type 64 as "*die Ahnherr*" ("the Ancestor"); when he started his company, he added his own surname to the car's grille. "If Mr. Porsche thought it was good enough to carry the Porsche badge," says Alexander Weaver, a car specialist for RM Sotheby's, "then yes, I'd call it a Porsche."

Most observers consider the first capital-P Porsche to be the 1948 356 Gmünd coupe. "People say the 356 No. 1 is the first Porsche," Weaver says. "We say Type 64 is the oldest car to wear a Porsche badge. If you take it exactly as I say it, that's correct." He even used the Gmünd car to arrive at the $20 million auction estimate. "My initial thoughts were, What is a Gmünd worth, and how many Gmünds did they build?" he says. "They are valued anywhere between $4 million and $8 million. And they built 50 of them." The Type 64 is the predecessor. "Is it worth three times that of the Gmünd? Probably," says Weaver. "Is it worth twice? Surely."

Over its eight decades, the car has undergone changes that would disqualify anything else from "original" status. It started life with left-hand-drive but was converted to right-hand by its second owner, the eccentric German racer Otto Mathé, then changed back to left-hand years later.

At various points, Mathé added Fiat brakes, new rear lights, and a new steering rack, and he adjusted the fuel tank and transmission. It was originally black, but he painted it turquoise. (It's now silver.) Many of the original parts Mathé swapped out during his 46 years of ownership (1949-95) will be included in next month's sale; few are currently installed.

Although it shouldn't be called a Porsche per se, Prill says, the Type 64's history of alterations contributes to its significance. "If you think of the world's great car companies, how many of them could lay a hand on the first car they built in their factory?" he asks. "I don't think there's another one."

The party that could settle this debate—Porsche—has taken a hands-off approach. Dave Engelman, a spokesman for Brand Heritage at Porsche, declined to comment on the nomenclature debate but noted in an email: "You can truly see the 'shape of Porsche' for the first time in the Type 64, and it's proven to be timeless."

The Porsche Museum, which displays a replica of the Type 64's body shell in Stuttgart, Germany, hasn't officially commented on the car; the brand has discouraged employees from posting about it online. (This after the company tried to buy the car from Mathé during the 1950s and '60s.) A spokeswoman for RM Sotheby's says, "We've had some conversations," but the museum "hasn't been directly involved" with the sale. Whatever it's called, Prill says the brand should embrace it. "If we dropped it on their heads, they wouldn't recognize it," he says. "Porsche is full of corporate men from top to bottom afraid to make a mistake."

Then again, it could just be part of a genius master plan: Keep quiet so as not to bolster the hype and price tag, then quietly buy the car back to keep it in the vaults of the Porsche empire once and for all. Ⓑ

Who Gets to Be An 'American'?

Forget politics. Books and plays are forcing audiences to reexamine a word that's as charged as ever

By Jordyn Holman

In *An American Summer*, veteran journalist Alex Kotlowitz ties together vignettes of Chicagoans in the aftermath of violence and death within their predominantly black neighborhoods. The wrenching portraits center on themes of love and forgiveness. A mother of a slain man wants restorative justice for her son's killer; a teen must grapple with witnessing his classmate bleed out; a young woman watches her childhood friend stuck in the revolving door of the criminal justice system.

We've read versions of these stories in the news—and seen them used to advocate for solutions to the systemic problems that plague cities. Kotlowitz's work does this. But he confronts his readers with a challenge even before they open the book: Can you consider this "an American summer"?

Kotlowitz argues that the devastation of black Chicago is just as emblematic of the season as enjoying a hot dog at a ballpark. Summer, in art and life, isn't always carefree—it can be heated, uneasy, violent. And for the 965 people wounded and killed in Chicago during the 2013 period when the book takes place—mostly black Americans—it represents a thin line between life and death. Kotlowitz says he wrote his book, which was released in March, in the hope that "these stories will help upend what we think we know."

Artists have long used the word "American" as a tool to make us reckon with troubling or complicated versions of who we are. FX's hit Russian spy drama *The Americans* just capped off six seasons of subverting visions of domestic life. The filmmakers behind *American Beauty* and *American Pastoral* used the word to capture a plaster-perfect white vision of the country, then probed the flaky fissures under its surface.

Like Kotlowitz, author Tayari Jones focuses on people of color for her *New York Times* best-selling book, *An American Marriage*. The 2018 novel traces the rise and fall of a union between two young black professionals in Atlanta after the husband, Roy, is wrongly convicted and sent to prison for years. At first, Jones, who is black, joked about her title to the *Houston Chronicle*: "I told my editor *An American Marriage* sounded like a novel about some white people in Connecticut experiencing feelings."

Her decision to place that title on the book is what drew Oprah Winfrey to it, and the media mogul ended up putting it on her influential book list. Scores of commuters now hold Jones's book on subways and planes, carrying this message further: The story of a black husband and wife ensnared in the prison system is a fair depiction of the modern-day pressures facing couples in this country. Move over, *Kramer vs. Kramer*.

Expect to see more like this. In March, Moroccan-born author Laila Lalami unleashed the murder mystery *The Other Americans*. Chimamanda Ngozi Adichie's epic love story *Americanah*, about a Nigerian American immigrant, is being adapted into a miniseries with Lupita Nyong'o.

They couldn't come at a more pivotal time, when the president takes to Twitter (truly the littlest form of literature) to stoke debate over who gets to come here and who may remain. Your race, even if you're a citizen, like the four congresswomen of the Democratic "squad," might become an argument for you to be sent away.

For most of the country's history, white people were the only ones given space in books, theater, and films to be fully human. And creators are pushing back. This year the Pulitzer Prize went to playwright Jackie Sibblies Drury, whose play *Fairview* examines the phenomenon of white watching. She methodically shows how only certain types of black stories are told to mass audiences, then explodes the guardrails around them—breaking the barrier between the set and the seats and leaving white members of the audience onstage while the black cast moves out to replace them in the aisles. It's a forceful subversion of who gets to be "in" the story.

In early 2019, Broadway's *American Son*, starring Kerry Washington and Steven Pasquale, told of interracial parents who spend a night in a Florida police station waiting for word of their missing son. Written by a white playwright, Christopher Demos-Brown, it grimly brings to life the fears parents of black children live with, and its chilling conclusion brings to mind Trayvon Martin and Tamir Rice, boys whose stories ended in a way we know all too well. *American Son* is being adapted for Netflix, where it will appear in the "recommended for you" fields of people who watched *Scandal*—the streaming version of a glimpsed book jacket on a plane, quietly drawing your attention.

These "American" works are moving the tales of black people from the "African American" section of the bookstore to the front table, a powerful advance. There, these narratives of everyday life are better positioned to meet and contradict divisive fictions emanating from politics and the media. They're inclusive stories whose strength comes from the complex world where Americans actually live, grow, and dream. Ⓑ

Higher Power

The reclaimed church wood inside a Cindy guitar still allows for some seriously sinful shredding
Photograph by Heami Lee

PROP STYLIST: REBECCA BARTOSHESKY

The blues are not learned in a monastery, Keith Richards once noted. And yet for instruments by Cindy Guitars, the materials may have come from a church. Cindy Hulej, who works out of Rick Kelly's Carmine Street Guitars in New York City, produces bespoke axes out of pine, maple, and oak planks that are reclaimed from some of the city's holiest institutions—Trinity Church near Wall Street, a Serbian Orthodox cathedral in the Flatiron District—as well as less-hallowed ground such as the Chelsea Hotel and McGurk's Suicide Hall saloon.

THE COMPETITION

- When hunting for a custom guitar maker, personality is paramount. John Suhr, who founded Suhr Guitars in Lake Elsinore, Calif., in 1997, learned his trade in Fender's specialization shop. He bases his electric Signature Series guitars on traditional Stratocasters, Telecasters, and Jazzmasters, but spins them into exquisite one-offs. They can cost $3,495.
- Bob Seger, Richie Sambora, and yes, Keith Richards, play on the Stratocaster-inspired designs that grandmaster Tom Anderson creates. He opened his California shop in 1984 and quickly earned a name producing hand-built electric guitars—some fetching as much as $5,500—known for their build quality, playability, and innovative tone.
- Founded in 2016 by Farhad Soheili, a luthier working in Brooklyn, N.Y., FSC Instruments makes a limited annual run of guitars with lumber sourced from around the U.S. and with necks, inlays, bodies, and pickups all crafted in-house. It's a strong entry-level step into the custom guitar world, with prices starting under $2,000.

THE CASE

Just reading the descriptions of a Cindy guitar can conjure an ancient energy: necks made from 100-year-old quilted maple; ebony fretboards with pure nickel pickup rings; bodies built from 200-year-old Bowery pine. Cool little details are everywhere: On the back of one headstock, a magic eye wards off evil spirits; elsewhere, tobacco-colored pickguards are emblazoned with a white crane. This custom-order Lilac and Red Sparkle J Model screams with fiery individuality but sings like an angel. *$4,000; cindyguitars.com*

Low Rates Bring Opportunity And Danger to States

By Brian Chappatta

It's no secret that U.S. infrastructure is in dire need of an overhaul. The American Society of Civil Engineers estimates a lack of investment will cost almost $4 trillion in gross domestic product by 2025. Measured per household, that's a loss of $3,400 a year thanks to congested roads, overworked electric grids, and other deficiencies.

With that in mind, the global trend of debt yields falling below zero seems like a massive windfall for U.S. states and cities. After all, they borrow for public works projects in the $3.8 trillion municipal bond market, where rates are within spitting distance of all-time lows. Just about every state can borrow at less than 2% for 10 years—a better rate than the federal government can get. If U.S. Treasury yields drop to zero, as some prognosticators expect, it stands to reason that those for Florida, Maryland, and Texas will go down, too.

But this is hardly a free lunch. With $3 trillion in pension assets, states also face a cumulative unfunded liability of more than $1 trillion, even after the longest economic expansion in U.S. history. What's worse, that shortfall likely underestimates the problem, as most plans assume annual returns of 7% to 8%. Were the U.S. to enter a recession, with bonds already yielding next to nothing, it would become virtually impossible to meet that target. Indeed, the two largest U.S. pension funds, representing California's public employees and teachers, respectively, each reported in July that they came up short in 2018, when the S&P 500 was down for the year.

By keeping interest rates at rock-bottom levels, central banks have made it ultra cheap for governments and companies to borrow, but they've eradicated any semblance of safe returns. This has major implications for defined-benefit pension managers, who are supposed to purchase assets to match long-term liabilities. In the 1990s, that was easy enough to do with 30-year Treasury bonds. The average yield throughout the decade was exactly 7%—mix in a little exposure to equities, real estate, and hedge funds, and it was a virtual lock to beat targets. But those higher-yielding bonds will mature soon, and reinvesting at less than half that rate will be painful. As with individuals saving for retirement, the only two choices are to contribute more money now or take on additional risk. With many states already cash-strapped and allergic to raising taxes, it's not hard to guess which option is politically more palatable.

Unless the risk-asset rally lasts forever, though, loading up on equities and alternatives won't be a long-term solution. More likely, states and cities will eventually divert a larger share of their budgets to supporting pensions. That means less funding for infrastructure.

For those who need to borrow and save simultaneously, the drift toward negative yields is very much a double-edged sword. Ⓑ —*Chappatta is a markets columnist for Bloomberg Opinion*

ILLUSTRATION BY GEORGE WYLESOL

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8 October 2019

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Speakers include

Jean Raby
Chief Executive Officer
Natixis Investment Managers

Emmanuel Roman
Chief Executive Officer
PIMCO

Andreas Utermann
Chief Executive Officer
Allianz Global Investors

Discussion topics

- Outlook for Global Markets in 2020
- Driving Returns in a World of Heightened Volatility
- Mitigating Recession Risk
- ESG and Impact Investing
- The Post-Brexit Outlook for Europe
- The Shape of the ETF Industry

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