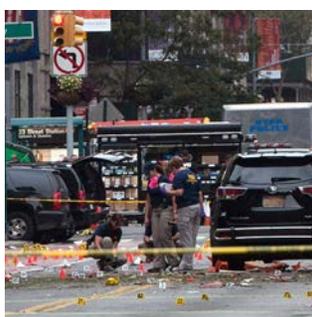


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QuickTake

NEWS IN CONTEXT



October 2016

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SAUDI ARAMCO

BY ANTHONY DIPAOLA AND WAEL MAHDI

The world's most valuable company isn't Apple or Google's owner, Alphabet. It's an outfit in a league of its own: Aramco, as Saudi Arabian Oil Co. is better known. This sprawling state-owned producer, sitting atop one-fifth of the globe's petroleum reserves, pumps more crude than the top four publicly traded oil companies combined. It's valued at more than \$2 trillion — or about four times those big technology giants — though no one really knows what it's worth because its profits are shrouded in secrecy. The veil could soon be lifted as the Saudi government is planning a partial privatization of Aramco to create a war chest and prepare the country for the post-hydrocarbon age.



Photo: Reza/Getty Images

THE SITUATION

The government intends to sell up to 5 percent of Aramco as soon as 2017, according to the country's influential Deputy Crown Prince Mohammed bin Salman. The sale's estimated size of about \$100 billion would make it the biggest-ever initial public offering, dwarfing the \$25 billion raised by Chinese internet retailer Alibaba. Bankers are lining up to reap a bonanza of fees. The money from the IPO will fuel a sovereign wealth fund at the center of a drive to diversify the economy, a goal that's gained urgency since the price of crude tumbled from more than \$100 a barrel in 2014 to about half that level. The prince's plan to create jobs for millions of unemployed Saudis in manufacturing, tourism and other fields is seen as crucial to the kingdom's political stability. Aramco will face unprecedented scrutiny: Disclosures needed to trade the shares in London or New York may include the first independent audit of the kingdom's reserves, details about its production capacity and a window into how much oil wealth goes to the royal family.

THE BACKGROUND

Explorers from the Rockefeller family's Standard Oil empire first struck oil in Saudi Arabia in 1938. The venture became known as Arabian American Oil and went on to discover Ghawar field, still the world's largest onshore deposit. In 1980, the Saudi government bought out the original shareholders, all of them forebears of Exxon Mobil or Chevron, and renamed the company. Aramco has fueled decades of prosperity for Saudi Arabia, a conservative Islamic state and one of the world's last remaining absolute monarchies. It generates almost 90 percent of government income and built the refineries, petrochemical plants and other infrastructure that form the backbone of the world's 15th-biggest economy. Saudi

Arabia has been the de facto leader of the Organization of Petroleum Exporting Countries, or OPEC, since the cartel was founded in 1960. It's often called the "swing producer" because decisions to increase or trim Saudi output drive the price of oil. Saudi crude accounts for about 1 out of every 9 barrels of global production and can be extracted for about a third of the cost of reserves in the U.S. Over the decades, Saudi Arabia has had a hand in engineering periods of lower oil prices — including the current slump — in a bid to maintain its market share.

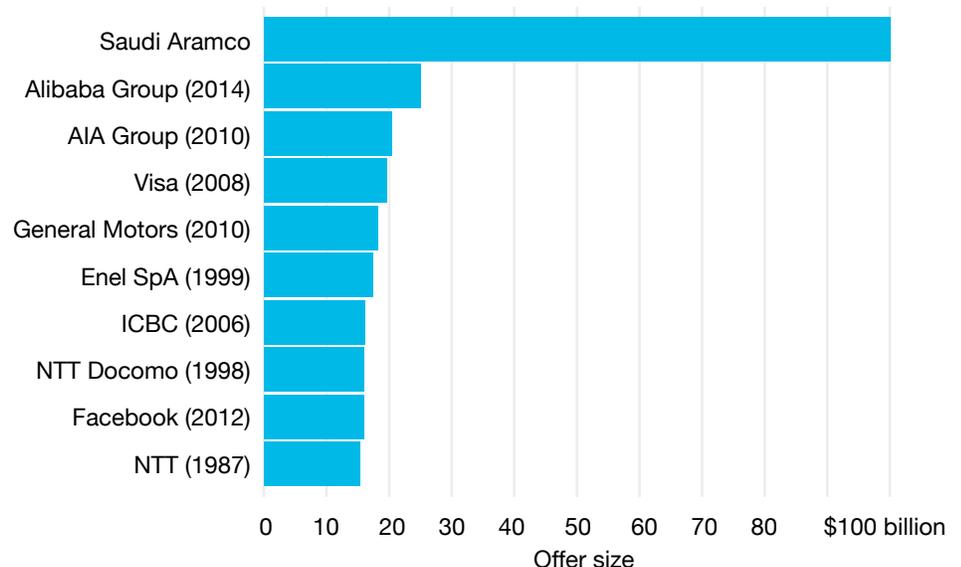
THE ARGUMENT

Prince Mohammed's plan envisions the Aramco IPO as the centerpiece of Saudi Arabia's biggest economic shakeup since the founding of the country in

1932. However, it's not yet known which parts of Aramco will be put up for sale. And some skeptics suggest the government might scale back the plan to make it palatable to a traditionally closed nation that may be reluctant to relinquish its hold on a national resource. It's also unclear how the country will preserve its historic role in world oil markets and how much influence the extensive Saudi royal family will continue to exert over its most prized asset. Even with the world's shift to cleaner fuels, oil is expected to continue providing about a third of world energy for the next two decades. For the biggest oil economy, however, that means the clock is ticking. Aramco's IPO will put a price tag on the future of petroleum just as Saudi Arabia is fixing its sights on the end of its own oil age.

Saudi Aramco Plans World's Biggest IPO

The proposed initial public offering, estimated at about \$100 billion, could come as early as 2017 and dwarf Alibaba's record \$25 billion sale



Source: Bloomberg

IRAN'S OIL

BY SAM WILKIN

Photo: Andrei Mastro/Hemera via Getty Images

Iran has long been wary of outside influence, especially when it comes to exploiting its natural resources. But now, the government is offering international oil companies their biggest role since 1979, when the newly-founded Islamic Republic nationalized the country's reserves. In theory, it's an attractive proposition for both sides. Iran needs oil revenue to revive its economy, the third-largest in the Middle East, which was set back by years of sanctions. Foreign companies are tempted by the potential profits that could be made even without a rebound in the price of oil. However, there are plenty of risks to investing in Iran, and the government has struggled to find a formula that can entice foreign companies without provoking nationalist outrage.

THE SITUATION

Iran's oil output has almost returned to its pre-sanctions level, following the lifting of most measures in January after Iran reined in its nuclear program under a 2015 deal with world powers. The oil ministry has bigger ambitions, however, and wants to boost production by another 20 percent by 2021. Iran hopes to return to its spot as the second-biggest producer within the Organization of Petroleum Exporting Countries, from third biggest now. Reaching its goals will require outside technology, management expertise and capital. So the government has called on foreign companies to invest \$100 billion in the oil industry and drafted a new template for contracts to lure them. The model agreement, first proposed in 2014, has faced challenges by political factions in Iran that oppose giving too many concessions to foreign firms and are working against President Hassan Rouhani's efforts to open the economy. Iran's cabinet approved the model in August, but officials did not reveal details of the new formula, such as how investors will be regulated.

THE BACKGROUND

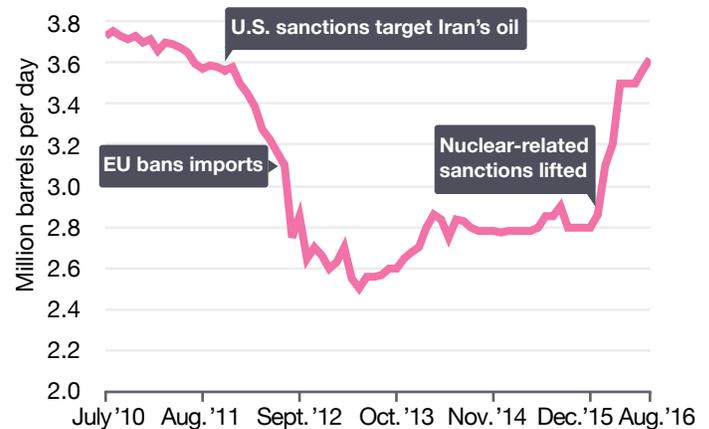
From the first concession given to a British speculator in 1901 until the 1979 Islamic Revolution, Iran had almost no control over its most precious natural resource. For several decades, the British government, through its majority stake in the Anglo-Persian Oil Company, effectively owned Iran's oil and received the lion's share of the profits. After years of mounting discontent, Iran's parliament nationalized the country's oil fields in 1951. The politician who spearheaded the takeover, Prime Minister Mohammad Mossadegh, was deposed in a coup backed by British and U.S. intelligence services two years later, and the power of the Western-backed Shah was restored. When Islamic revolutionaries overthrew the Shah in 1979, one of their first acts was to renationalize Iran's oil. For two decades no foreign oil companies operated in Iran. When they came back in the late 1990s they operated under short-term contracts that paid them a fixed fee to explore for oil and develop fields, with all the risks that entailed, but gave them no share in production profits. Most of those companies stopped operating in Iran by 2010, as political risks started to outweigh the benefits.

THE ARGUMENT

Can Iran attract the top technology, hefty investments and long-term commitments it seeks? Big oil companies won't pass up Iran's fields lightly. The country's crude is cheap to extract. Costs are less than half those in Mexico, for instance. And there's lots of oil in Iran: about 10 percent of the world's proven reserves. But the list of risks is long. Business regulations in Iran are complex. Investors will have to enter a joint venture with a local partner, making it harder to comply with international anti-corruption legislation and the remaining U.S. sanctions. The government hasn't clarified whether it will agree to bring disputes with companies to arbitration through international tribunals such as the International Court of Arbitration. Longer-term contracts will offer more opportunity to exploit difficult fields but will also lock investors into an unpredictable environment. Elections in May 2017 could see Rouhani replaced with a more protectionist candidate. In an extreme case, political shifts in Iran or the U.S. could undermine the nuclear deal and bring back sanctions.

Iran's Oil Production

Daily output recovers from nosedive caused by sanctions



Source: Bloomberg

SYRIA'S CIVIL WAR

BY GLEN CAREY



Photo: AFP via Getty Images

It's the land where the Arab Spring collided with a dictatorship determined to stay in power. Now Syria has become the Middle East's biggest humanitarian disaster in decades. For most of the last 40 years, Syria's leaders imposed stability on the country's mix of religious and ethnic groups. Then civil war erupted, drawing in an array of outsiders. Secular Syrians, homegrown Islamist radicals and foreign Sunni jihadists battle forces loyal to President Bashar al-Assad and — at times — each other. Five years of violence has killed an estimated 370,000 people and led to the rise of Islamic State. The effects of the conflict have spread ever further afield. Russia and a U.S.-organized coalition are both fighting Islamic State inside Syria, with Russia backing Assad and the U.S. on the side of the Syrian rebels.

THE SITUATION

Russian support enabled the regime to regain momentum against the rebels, who are supported by the U.S. and Arab countries, including Saudi Arabia. Backed by Russian airstrikes, government troops fought to retake rebel-held areas of Aleppo, Syria's commercial capital. Despite having announced in March that it would largely withdraw its forces from Syria, Russia continued to target forces it described as terrorists. That's a designation the U.S.-led coalition limits to Islamic State and the al-Qaeda spinoff Jabhat al-Nusra, but Russia and the regime tend to attach the label more generally to Assad's foes. Several ceasefires have broken down. Both Russia and the U.S.-led coalition were drawn deeper into the conflict by Islamic State's gains in Syria and its terrorist attacks in cities such as Paris. The war has leveled Syrian cities and uprooted about half the country's prewar population, creating more than 4 million refugees. They are straining the resources of neighboring countries and testing the welcome of European governments.

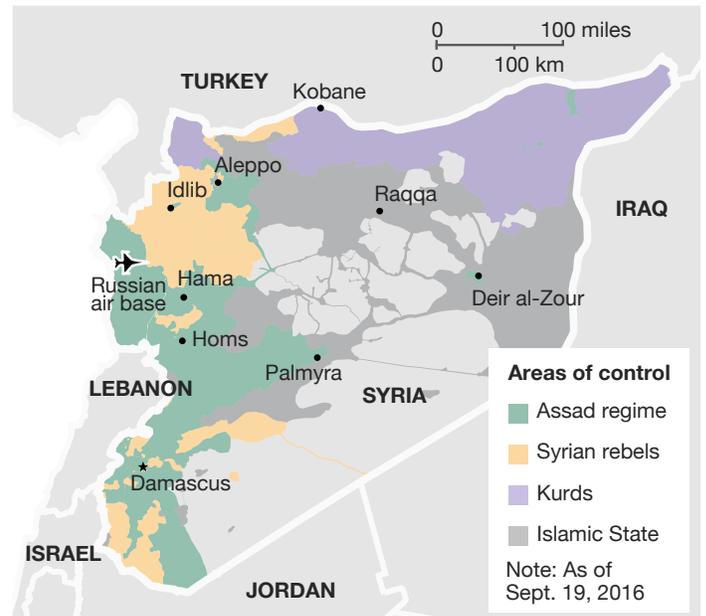
THE BACKGROUND

Once a French-run mandate, Syria became independent after World War II. By 1963, the Arab nationalist Baath party was ruling the country and a party member, Hafez al-Assad, seized power in 1970. (His son Bashar took over after his death in 2000.) That placed the Alawite minority, whose faith is an offshoot of Shiite Islam, in power in a country where more than 70 percent of the population is Sunni Muslim. Syria's 22 million people include sizable Christian, Druze and Kurdish communities. Hafez brutally suppressed dissent. Using his father's playbook, Bashar crushed peaceful protests in March 2011 and unleashed attack aircraft, helicopter gunships, artillery and tanks against lightly armed rebels. The U.S. and Russia worked together to get UN inspectors to tally and destroy Syria's chemical weapons after a poison gas attack in August 2013, but there's widening concern such weapons are still being used, both by Assad and Islamic State. Russia, which maintains its only military base outside the former Soviet Union at Syria's Mediterranean port of Tartus, has used its UN Security Council veto repeatedly to protect the regime. Shiite-majority Iran also backs Assad, as does Hezbollah, the militant Lebanese Shiite group.

THE ARGUMENT

There is wide agreement on the need to end Syria's civil war and unite the country against Islamic State, but not on how. The war-weary U.S. is taking a cautious military approach that minimizes harm to its forces. While President Barack Obama had insisted for years that Assad must go, the U.S. has softened that position in the interest of the broader fight against Islamic State. Russia, for its part, says its goal is to keep Syria secular, independent and, most important, intact. There had been concern that Assad's defeat could leave a vacuum that radical Islamic groups would rush to fill. In peace talks, Assad has proposed a new joint government, with a limited role for the opposition. The rebels insist on a transitional government in which Assad would play no part.

A Country Torn Asunder



Source: IHS Conflict Monitor

LONE-WOLF TERRORISM

BY CHRIS STROHM

In the Sept. 11 attacks, al-Qaeda showed just how much destruction a well-organized terrorist network could wreak through coordinated strikes. In June 2016, a gunman killed 49 people in a Florida nightclub, illustrating a different kind of threat that the West is increasingly facing: individuals acting on their own with little or no connection to militant Islamic groups except in their own minds. These so-called lone-wolf terrorists are especially difficult to detect in advance, and thus to stop. Their violence is fueling debates in the U.S. and Europe over issues including gun control, online privacy and immigration from Muslim countries.

THE SITUATION

Lone-wolf terrorists are generally defined as acting alone or with one or two others, without specific instructions, with a political motivation but no formal ties to an organization. Attacks by lone wolves, at least until recently, were relatively rare, accounting for 1.8 percent of terrorist attacks in the U.S. and 14 other industrialized countries between 1968 and 2010. Yet officials in the U.S. and many states within the European Union say the risk of attacks by independent jihadists is rising. Sociologists and criminologists say lone wolves tend to harbor both personal and political grievances. More often than not, they display signs of mental instability, which may help explain their attraction to extreme causes and their inability to function within a larger group. One study found that lone wolves are 13.5 times more likely to have a mental illness than a terrorist acting within an organization. Lone-wolf attacks often inspire copycats.

THE BACKGROUND

The term "lone wolf" stems from American white supremacists Alex Curtis and Tom Metzger, who in the 1990s encouraged fellow believers to commit violent acts independently to evade detection. White supremacy, Islamic militancy and opposition to abortion were the most common motivations for lone-wolf attacks in the U.S. from 1968 to 2007, according to one study, while nationalism and white supremacy topped the list in 14 other countries. Increasingly, jihadist groups have encouraged such assaults. As its base of operation in Afghanistan came under assault after the Sept. 11 attacks, al-Qaeda began calling on supporters to strike enemies whenever, wherever and however they could. With its staging grounds in Iraq and Syria challenged

in recent years, the rival group Islamic State similarly began using social media to convey the same message. French scholars Gilles Kepel and Olivier Roy have engaged in a vigorous debate over whether jihadists homegrown in Europe are symptoms of the radicalization of Islam (Kepel's view) or the Islamization of radicalism. Roy argues that they are modern-day nihilists who have glommed onto militant Islam to justify their rebellion against society.

THE ARGUMENT

Because lone wolves don't belong to organizations that can be infiltrated and monitored, they are difficult to combat. Some critics of existing countermeasures say law-enforcement agencies should have more leeway to conduct surveillance and act on it. A number of individual jihadists had drawn the attention of authorities at some point before their attacks. Other



Photo: Stephanie Keith/Getty Images

proposals include putting more pressure on social-media companies to block terrorist propaganda and, in the U.S., strengthening gun regulations. Some politicians, notably U.S. presidential candidate Donald Trump, advocate restricting Muslim immigration. Each of those measures draws objections. Critics of boosting surveillance argue it could alienate and even radicalize Muslim communities, as could limiting immigration. Policing social media, skeptics warn, could lead to too much government control. Opponents of gun restrictions in the U.S. say they would violate a constitutional right to bear arms. Scholars who study lone-wolf terrorists suggest that a better understanding of them could help others spot them before it's too late. One study of such attackers found that most broadcast their violent intentions in advance, in statements to associates, on social media or in various forms of protest.

Notable Lone-Wolf Jihadist Attacks

When	Where	What
Sept. 2016	New York	Bomb injures 31; Afghan immigrant arrested
June 2016	Orlando, Florida	Gunman kills 49 in gay nightclub
Dec. 2015	San Bernardino, California	Married couple kill 14 with assault rifles
June 2015	Lyon, France	Delivery driver decapitates employer
Feb. 2015	Copenhagen	Gunman kills two in separate shootings
Oct. 2014	Ottawa, Canada	Shooter kills soldier on Parliament Hill
May 2013	London	Two men hack off-duty soldier to death
Apr. 2013	Boston	Two brothers kill 3 at Boston Marathon

Note: Investigations sometimes eventually yield evidence of connections with terrorist groups.

Source: Bloomberg

VLADIMIR PUTIN

BY HENRY MEYER



Photo: Sasha Morozovets/Getty Images

The most popular politician in Russia is among the West's most reviled: Vladimir Putin. His personal style matches the muscular nationalism he displayed when he annexed Ukraine's Crimean peninsula in 2014 and embarked on a surprise air campaign in Syria the following year. It resonates in a culture that admires strength. His instinctively conservative social views, reflected in an anti-gay law that he passed in defiance of foreign protests, also go down well in a country where liberal values are scarce. Rising oil income in the first part of his rule boosted living standards and allowed Russia to reassert power following a decade of post-Soviet humiliation. Now Putin's personal appeal is being tested by economic hardship caused by a collapse in oil prices and sanctions provoked by the Ukraine intervention. His popularity has hardly been dented. At least so far.

THE SITUATION

As Putin prepares to stand for election again in 2018, his approval ratings have fallen slightly. Still, they are at a remarkably high level of more than 80 percent, and his United Russia party won its biggest-ever majority in parliamentary elections Sept. 18. Putin presents a carefully constructed public personality through TV. He appears daily as an iron man of action, rebuking government officials, hosting foreign leaders, even taming wild animals and hang gliding. Cultivating his aura of power, Putin is legendary for showing up late — he's kept the Pope, Queen Elizabeth II, German Chancellor Angela Merkel and U.S. President Barack Obama waiting. The private man is harder to observe. Sports is a passion — he's a black belt in judo, a swimmer, skier and a keen ice hockey player. The public got a glimpse of his domestic life when he announced on TV in 2013 that he was divorcing his wife, Lyudmila. She was a former air hostess he married early in his career as an officer of the KGB, the Soviet spy agency and secret police force. Their two adult daughters are rarely in the public eye. Occasionally, the Putin stone face softens: After winning a third presidential term in 2012 following a tumultuous challenge from street protesters, he shed tears at a televised victory rally. More typical: In 2007, he met Merkel at his Sochi residence and let his pet Labrador retriever sniff his unnerved guest. She's known to be afraid of dogs.

THE BACKGROUND

Putin honed his survival techniques as a deprived child in postwar Leningrad (now St. Petersburg). Two older siblings died during the city's 900-day wartime German siege, according to a 2013 book by a distant relative. His mother barely survived. A 2000 autobiographical book, "First Person," accounts for most of what is known about Putin's early life and forebears. These include a grandfather, Spiridon Putin, who was a cook for Lenin and Stalin. The book says the Putins lived in a small room in a communal apartment without hot water or a proper bathroom. There he is said to have chased rats, learned martial arts and dreamed of working in intelligence. In 1989, as a spy in East Germany, he was forced to destroy documents when crowds tried to break into the KGB office. He said the discovery of the powerlessness of his Soviet bosses traumatized him. When Communism collapsed, Putin switched his public allegiance to the Orthodox Church, to which two-thirds of the population professes to belong.

THE ARGUMENT

Putin once described the collapse of the Soviet Union as the greatest geopolitical catastrophe of the 20th century. He sees himself as a guardian of Russia's unique place in the world, under assault from a decadent West. His strong approval ratings suggest his constituents take a similar view. Still, the longest recession in more than two decades has cut into support for the ruling party. Though it won 54 percent of the vote in September, it was polling as high as 60 percent 18 months earlier. The question is whether Putin can maintain his image as Russia's protector.

His Life

- 1950s** **1952** Born Oct. 7 in Leningrad to a factory foreman and his wife.
- 1970s** **1975** Graduates in law from Leningrad State University. Joins KGB foreign intelligence service.
- 1980s** **1985** Goes to work for KGB in East Germany.
- 1990s** **1990** Becomes assistant rector for international affairs at Leningrad State and adviser to city government.
- 1996** Transferred to Moscow to join President Boris Yeltsin's staff.
- 1998** Becomes director of Federal Security Service, the post-Soviet spy agency.
- 1999** Appointed prime minister. Becomes acting president when Yeltsin resigns.
- 2000s** **2000** Elected president.
- 2001** Government takes over national TV network and cracks down on independent stations.
- 2008** Leaves presidency because of term limits. Appointed prime minister.
- 2010s** **2012** Re-elected president.
- 2013** Relations with U.S. deteriorate with backing for Syrian President Bashar Assad and asylum for NSA leaker Edward Snowden.
- 2014** Annexes Crimea in conflict over Ukraine.
- 2015** Confronts recession that becomes Russia's longest in two decades.
- 2016** His party scores a crushing victory in parliamentary elections.

Source: Bloomberg

ITALY'S TURN TO UNNERVE WITH A REFERENDUM

BY JOHN FOLLAIN AND CHIARA ALBANESE

The last referendum by a European Union country had, to put it mildly, widespread ramifications. The next one could, too. On Dec. 4, Italians will vote on constitutional changes proposed by Prime Minister Matteo Renzi to limit the power of the Senate, the upper house of parliament. At stake is how Italy is run as it endures a banking crisis, economic stagnation and pressures linked to migration flows. Renzi's own political fate is on the line as well, as he has promised to quit if voters reject his proposals. That would be a boost for the opposition Five Star Movement, which wants a national referendum on whether Italy should abandon Europe's common currency.



Photo: Simona Granati/Corbis via Getty Images

WHAT ARE ITALIANS VOTING ON?

A proposal to reshape the Senate so that it no longer can block legislation indefinitely, gets consulted on fewer matters and loses its power to call a vote of no confidence in the government. Today's 315 directly elected senators would be replaced by 100 regional councilors and mayors who are indirectly elected or appointed.

WHAT MIGHT THAT ACCOMPLISH?

Renzi says the changes would reduce the instability that has given Italy 63 governments since the end of World War II, crippling its ability to meet political and economic challenges. Governments would have a longer life because the Senate would no longer be able to bring them down with a no-confidence vote. He also says the changes will save some 500 million euros (\$561 million), and that the money will go to an anti-poverty fund.

WHAT'S THE OPPOSITION VIEW?

That Renzi's reforms would give prime ministers — him, in particular — too much power. Ex-premier Silvio Berlusconi has warned the changes would "lead us straight toward a non-democracy." Also, critics say the financial savings from the change would be less than 60 million euros.

WHAT MIGHT BE THE CONSEQUENCES OF A YES VOTE?

In the near term, the government would stay in power. In the longer term, a Yes vote would — according to Renzi's supporters — mean a more streamlined legislative process and a chance to tackle structural reforms from the Byzantine state bureaucracy to the delay-plagued judiciary. Renzi has said that whatever the result, the next elections will be when his term would normally end in early 2018. But he might be tempted by a Yes victory

to try to force early elections, in a bid to capitalize on his success.

WHAT MIGHT BE THE CONSEQUENCES OF A NO VOTE?

Political and economic turmoil, the likes of which haven't been seen since Renzi took office in early 2014. Renzi has pledged to resign. If Renzi does quit, President Sergio Mattarella is expected to appoint a premier — possibly Renzi — to lead a caretaker government rather than call early elections. There would be calls for electoral reform before any new elections are held, potentially paralyzing Italy's decision-making. The Five Star Movement, which is virtually tied with Renzi's Democratic Party, would press its call for a referendum on continued Italian membership in the euro. Business

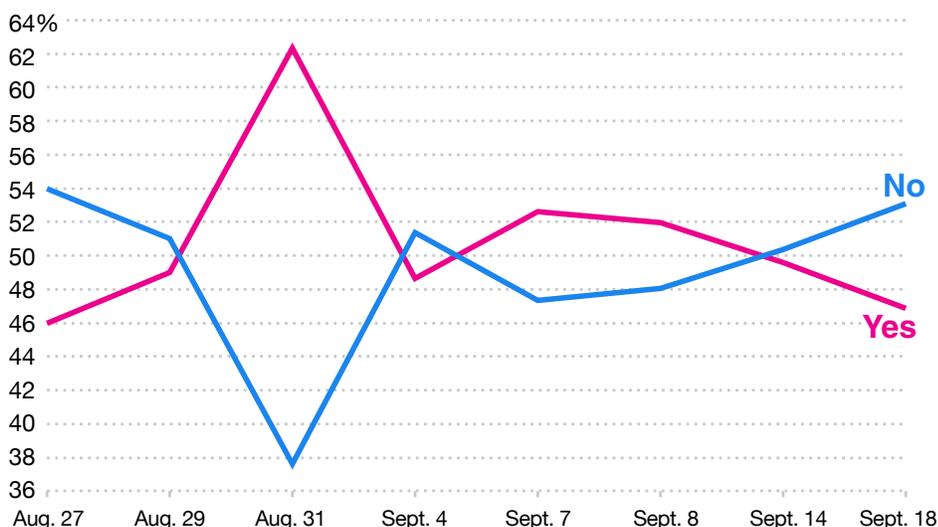
lobby Confindustria says the economy could fall back into recession. "Any outcome of the referendum that is seen as destabilizing the status quo could add to the headwinds for the Italian economy and the euro," said Valentin Marinov, a strategist at Credit Agricole SA in London.

WHAT DO POLLS SAY?

An EMG Acqua survey for La7 television conducted September 17 to 18 found that 53 percent of respondents supported a No vote. The same company's poll at the beginning of June found 52 percent support for Yes. An Ipsos survey for newspaper Corriere della Sera in July found that 53 percent of voters consider the referendum a vote on Renzi's performance while only 27 percent see the content of the reform as the key issue.

Close Call on Italian Referendum

Compilation of polls predicting Dec. 4 vote on constitutional changes



Source: Bloomberg calculations using polls reported by Sondaggi Politico Elettorali

CHINA'S SILK ROAD

BY DAVID TWEED

The name Silk Road conjures images of caravans, desert steppes and adventurers like Marco Polo navigating the ancient trading routes connecting China with Central Asia, the Middle East, Africa and Europe. China's modern-day adaptation aims to revive those routes via a network of railways, ports, pipelines and highways. President Xi Jinping champions his pet project as a means to spur development, goodwill and economic integration, as well as find markets for his country's over-producing factories. Critics — both along and beyond the Silk Road routes — are wary of China's push to spread its influence further west.



Photo: Qilai Shen/Bloomberg

THE SITUATION

Xi has outlined a decades-long drive to grease the wheels of trade with infrastructure projects costing tens or even hundreds of billions of dollars. Typical plans include the development of ports in Malaysia and Tanzania or highways in Pakistan and Tajikistan. Along the way, China is also encouraging its companies to invest in industrial projects such as utilities. To bankroll these ambitions, the Chinese government created the \$40 billion Silk Road Fund in 2014; already, it has backed a dam in Pakistan and a liquefied natural gas operation in Russia. Other funding sources include the BRICS Development Bank and China's \$100 billion Asian Infrastructure Investment Bank (AIIB) — an alternative to the World Bank that the U.S. and Japan initially criticized for its standards of governance (such as less stringent social and environmental safeguards than the World Bank stipulates). China stands to gain not just by putting to work its underused industrial capacity and excess production of steel and other materials, but also by pushing its goal of deepening the global reach of its currency. Partner nations are weighing economic benefits against an increasingly dominant superpower's demands. For example, a deal for a rail project in Thailand fell through because local officials refused to grant China's request for commercial property rights. Xi said in August that more than 30 countries had signed formal agreements with China and 20-plus were cooperating on plans such as railways and nuclear power.

THE BACKGROUND

Xi first proposed reviving the Silk Road in 2013 and went on to refer to it as "One Belt, One Road" — a combination of an overland "belt" and a maritime "road." Although the original trading routes were established more than 2,000 years ago, the Silk Road's name — derived from the delicate fabric highly prized by the Roman elite — was coined only in the 19th century by a

German geographer. In its heyday, paper, gunpowder, porcelain and spices were transported to the west; horses, woolen rugs and blankets, gold, silver and glass made the return journey. Just as monks used the routes to spread Buddhism, the modern Silk Road is not just about commerce: China floats visions of film festivals and book fairs, scholarships and jointly run schools, as well as cruise ships plying the maritime lanes via Southeast Asia and Africa.

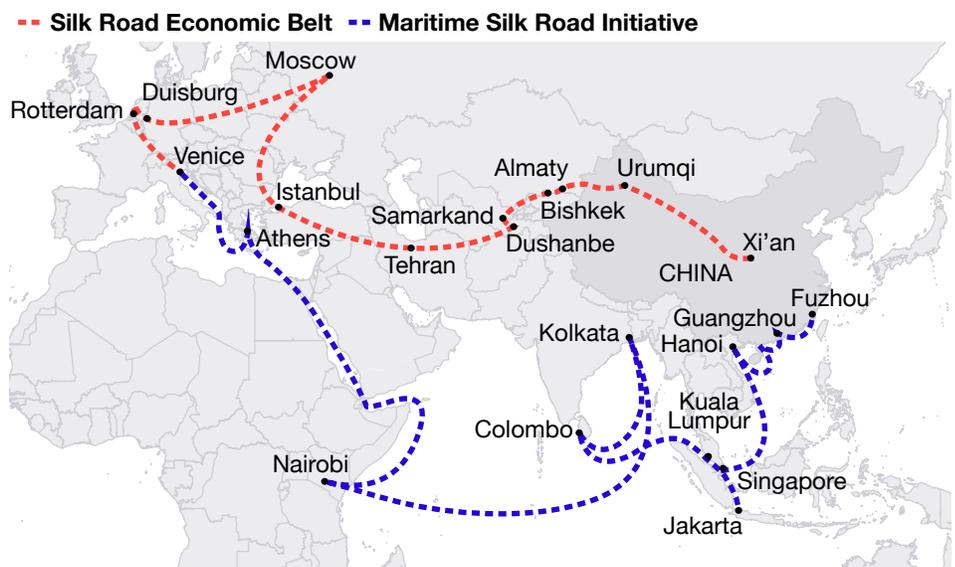
THE ARGUMENT

China emphasizes the Silk Road's role in boosting industrialization in the developing nations sandwiched between East and West. Economists agree that the initiative has the potential to stimulate Asian and global economic growth. Risks include stoking graft in a region beset by corruption

(the Kyrgyz prime minister was forced to resign in 2016 over a contract award to a Chinese company) and long-shot developments turning into white elephants (like an international airport in southern Sri Lanka that hosts only a couple of flights a day). Certain projects — especially costly overland routes — may simply not be economically viable. Critics point to China's increasingly assertive military, particularly in Asia's waters, and ask whether the development of ports might presage the establishment of naval bases. China's rejection of a tribunal ruling on its South China Sea claims has also raised concerns about its regard for the international rule of law. There's also the question of how long China will be prepared to forge ahead with costly overseas investment when growth at home is slowing.

One Belt, One Road

China's modern-day adaptation of the ancient Silk Road aims to revive the routes via a network of railways, ports, pipelines and highways



Source: Bloomberg



Photo: Erik Simonsen/Getty Images

JUMBO JETS' TWILIGHT

BY JULIE JOHNSON AND ANDREA ROTHMAN

Cruise lines gave ocean liners redolent names to conjure the glamour of long-distance travel. It was no coincidence that Pan American World Airways borrowed cruise-ship monikers like “Queen of the Pacific” and “Belle of the Seas” for the hulking Boeing 747s that opened intercontinental flights 40 years ago. By the time Airbus began selling its double-decker A380 in 2000, long flights were straightforward and so was the new plane’s name, the Superjumbo. Now the largest jets share the ocean liners’ fate — their romance has faded. The hump-nosed 747 is still the premier plane for bulky cargo. But for passengers, aviation’s behemoths have been eclipsed by twin-engine models that burn less fuel. The four-engine jetliners increasingly find themselves with a sadder label: white elephants.

THE SITUATION

As airlines turn to twin-engine planes like Airbus's A350 and Boeing's 787 Dreamliner for long routes, the planemakers have struggled to sell giant aircraft. Their fates ride for now on single customers. A 20-aircraft deal with Russian cargo-hauler Volga-Dnepr Group in June 2016 provided life support to the 747 while Boeing waited for the depressed air-cargo market to revive jumbo freighter orders. The A380's fortunes have been tied to Emirates, which accounts for 45 percent of sales. Reality beckons. The original, never-realized production plans for the A380 called for Airbus to build 45 planes a year. It hasn't come close. The planemaker decided in mid-2016 to more than halve output to 12 jets annually within two years. Without fresh interest in the 747, Boeing may have to end the program. An overhauled U.S. Air Force One presidential fleet, to debut in 2023, may mark the last hurrah.

THE BACKGROUND

Boeing engineers saw the travel and cargo-hauling capacities promised by the jet age, so in the 1960s created the 747 with range to cross oceans and upper lounges to redefine luxury. The plane dominated in the 1980s as deregulated U.S. carriers created hub-and-spoke networks to fill aircraft seating 400. The 1990s brought a new generation of jetliners led by Boeing's 777, with similar long range but just two engines chugging jet fuel to the jumbo's four. Their lower operating costs and smaller size let airlines bypass congested hubs and offer more daily flights without fear of empty seats. Airbus built its huge jetliner to end Boeing's monopoly, but its timing was lousy. The market was shifting by the A380's first commercial flight in 2007. Sales were thin, even as passengers embraced the A380's bars, showers and even, in the Etihad Airways model, a luxurious apartment.

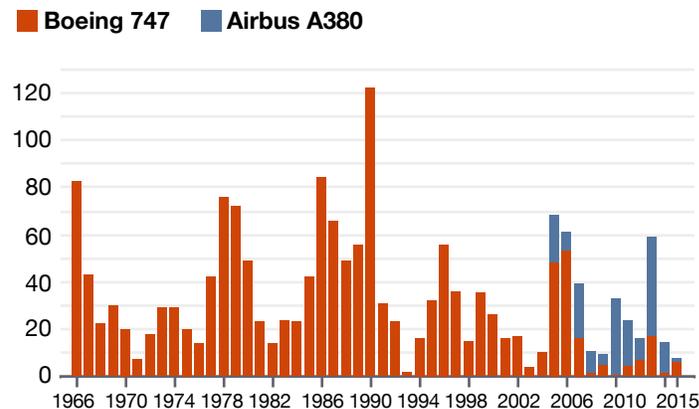
THE ARGUMENT

Skies and runways will become more crowded as air traffic is expected to double over the next 20 years. Yet with the notable exception of Emirates, which flies the A380 even to smaller destinations including Manchester, airlines worry about filling 500 to 600 seats through every economic swoon. Passengers

aren't keen on the hub-and-spoke system that fills jumbos, since transfers add to travel time. Aviation consultant Bob Mann predicts markets will continue to fragment as airlines skirt constrained hubs like Tokyo's Narita and London's Heathrow by flying directly to smaller cities. In fact, the planes are re-writing airline route maps. The Dreamliner, alone, has opened 120 new non-stop routes from the time it entered the market in 2011 through mid-2016. Then there's the competition as ever-larger twin-engine airplanes encroach on jumbos' turf. Boeing is designing its 777-9 to haul more than 400 travelers while mulling a stretched version that could cram in perhaps 450 people. So the 747 is banking on freight. While shipping by air costs 12 to 16 times more than by sea, the growing market for perishable and time-sensitive goods will require more air cargo flights. Over the next 20 years, Boeing says the world will need 550 new large freighters. Airbus's A380 isn't offered as a cargo-hauler. But the European planemaker still believes that burgeoning traffic and the difficulty of expanding or building airports will one day favor the Superjumbo.

Jumbo Sales

Net orders of very large, four-engine aircraft each year



Sources: Boeing and Airbus

UNIVERSITY ENDOWMENTS

BY JANET LORIN



Photo: Brent Lewin/Bloomberg

A not-so-old joke has it that Harvard is best thought of as a hedge fund with a university attached. The money in question is its endowment, a \$37.6 billion pool made up largely of donations and retained earnings from investments. Big college endowments are a mostly American phenomenon, the product of a culture of philanthropy, rising inequality and aggressive investment techniques. Endowments also benefit from tax breaks for donors and a tax exemption on a fund's earnings. Critics, including some members of Congress, are asking whether endowments are doing enough to help students at a time of soaring educational debt — or if the support by taxpayers is just helping the richest schools get richer.

THE SITUATION

Harvard isn't the only school with lots of money. As of June 2015, the endowments of the 812 U.S. universities that responded to an industry survey amounted to \$529 billion. Some 75 percent of that was held by the wealthiest 94 universities in the survey, which each had endowments of \$1 billion or more. The average return on investment in the year ending June 2015 was 2.4 percent, about half of the gain for the S&P 500 Index. Endowments over \$1 billion, which tend to be more diversified, returned 4.3 percent. This year, the prospect of investment losses led a number of schools to cut back on the amount of endowment money they spent. The cuts came at a time of heightened scrutiny: In early 2016, the two most important tax-writing committees in Congress asked the richest 56 private schools to provide details about how their investment returns are spent and how much endowment fund managers are paid. In the U.K., Cambridge has an endowment of 2.2 billion pounds (\$2.8 billion), and Oxford one of 2 billion pounds. Other schools with big endowments include the King Abdullah University of Science and Technology in Saudi Arabia and the National University of Singapore.

THE BACKGROUND

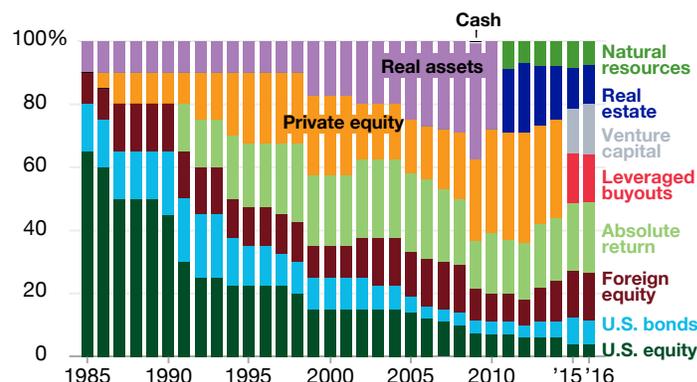
Endowments have long played a central role in the rise of some colleges. A \$17 million bequest in 1932 from George Eastman, the inventor and founder of Eastman Kodak, helped make the University of Rochester one of the nation's richest for several decades. Donations of \$100 million or more have come in a flurry in recent years, with about a dozen received by universities in 2014 and 2015. Endowments have also grown by adopting aggressive investment techniques. In 1985, 65 percent of Yale's fund sat in U.S. equities; its asset allocation target for domestic stocks in fiscal 2016 is 4 percent. Its pioneering chief investment officer, David Swensen, described an endowment's long time horizon as "well suited to exploit illiquid, less-efficient markets." Other universities followed suit, and returns rose. Then came the 2008 downturn, when the lack of liquidity contributed to some big losses. Harvard's fund declined 27 percent. Today, some schools with big endowments and smaller student bodies, such as Princeton, Amherst and Grinnell, derive about half their operating budgets from endowment income.

THE ARGUMENT

A Congressional Research Service report estimated that taxing endowments' investment income at a 35 percent rate would have produced \$16.2 billion in fiscal 2014, and that the cost of tax deductions claimed by individual and corporate donors to universities amounted to \$6.3 billion per year. Both benefits flow largely to elite schools. One advocacy group estimated that the \$6 billion a year needed to fund President Barack Obama's plan to make community college free could be raised by a sliding-scale excise tax of between 0.5 percent and 2 percent on endowments that exceed \$500 million. Colleges counter that they can't spend their funds like money in a bank account. Endowments are comprised of thousands of individual funds derived from gifts, and schools must by law follow the intention of the donors. The latest Congressional inquiry isn't the first — the Senate Finance Committee raised similar questions before the financial crisis. Around the same time, about 30 of the nation's richest schools replaced loans with grants in financial aid packages.

For Yale, a More Complex Mix

Endowment's target asset allocation each year



In 1999, natural resources like oil, gas and timber were reclassified from private equity into real assets, which previously had been only real estate. In 2011, natural resources was spun off into its own category. In 2015, private equity was split into leveraged buyouts and venture capital.

Source: Yale University

GOLF IN THE ROUGH

BY JAMES LUDDEN

When Tiger Woods's golf game imploded in 2009, the entire sport got stuck in the rough. Viewing figures declined along with the number of players. And the challenge of attracting and retaining new golfers only became harder for a time-intensive game often criticized for its misogyny, elitism and cost. Optimists point to an emerging crop of professional stars and to golf's reinstatement as an Olympic sport after a 112-year absence. They also see new and faster formats than traditional 18-hole rounds as a way to reinvigorate the game. The question is, will a sport hardly renowned for embracing change and progressive attitudes adapt quickly enough?



Photo: Susan Trigg/Getty Images

THE SITUATION

Professional golf is rallying, spurred by a core of top men's players — Jordan Spieth, Rory McIlroy and Jason Day — all in their twenties. Prize money has jumped, with tournament payouts up 37 percent on the U.S. PGA Tour since Woods's heyday in the mid-2000s. At the grassroots, it's another story. The number of U.S. golfers dropped from a Woods-propelled peak of 30.6 million in 2003 to 24.1 million in 2014. The decline has been more severe in Japan, another of the sport's heartlands, offsetting growth in golfing frontiers like China and India. New course openings are at an all-time low, according to the Royal and Ancient Golf Club, or R&A, which oversees golf outside the U.S. and Mexico. And participation among young people is down 30 percent over two decades. Even golf's reappearance at this year's Olympics in Rio de Janeiro, a seeming godsend for a sport seeking to showcase itself, may have backfired after Spieth, McIlroy and Day withdrew because of concerns over the Zika virus. Nike, the world's largest maker of sporting goods, said in August that it will stop selling golf equipment, while Adidas, its biggest rival, is also shifting away from the sport.

THE BACKGROUND

Golf has always been about time and money. The Scottish aristocrats who devised a version of the sport in the 15th century and the American middle class that embraced it from the 1890s had plenty of both. Playing 18 holes takes more than four hours; add in travel, and suddenly that's a day away from work — something that doesn't sit easily with hectic modern lives, and certainly not with millennials. The average age of avid once-a-week players in England jumped to 63 in 2014 from 48 in 2009. And today's 50-year-olds are unlikely to be able to retire as early as their 65-year-old partners did. Other concerns include golf's dwindling status as a corporate

bonding exercise, the sport's environmental impact and its failure to build interest among women. It took until 2015 for the R&A to admit its first female members.

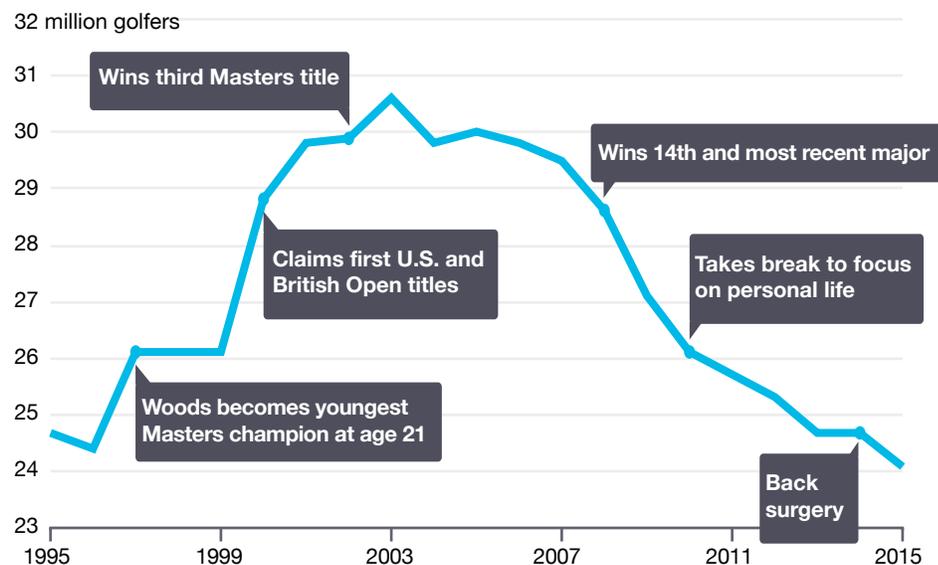
THE ARGUMENT

Reformers point to other old-fashioned sports that turned their fortunes around by developing shorter, higher-energy versions, such as cricket's colorful, whiz-bang Twenty20. Golf's rulers have pushed nine-hole rounds as one alternative. More innovative versions include a six-hole game known as Sprint6golf that gives players a maximum 30 seconds per shot and a driving range-based setup called Topgolf. In fact, golf lured more would-be players in the U.S. last year than at any time since the early 2000s. The problem is retaining them, and one of the biggest turnoffs is the sport's intrinsic difficulty. That's prompted

calls for shorter courses with less rough (meaning less time looking for balls), and even experiments with bigger holes. Few disagree that golf should be more beginner-friendly, but critics wonder whether a sport steeped in arcane rules and anachronistic traditions may be its own worst enemy. Royal St. George's, a regular host of the British Open, will let visitors play in shorts only if they wear knee-length socks. And don't even think about joining Muirfield (another regular British Open venue) if you're a woman. Some officials appear open to change. The European PGA Tour's chief agreed to let players wear shorts during practice at a leading tournament, noting a link between youth and golf fashion. The reaction across the Atlantic at the PGA Tour? No thanks.

The Tiger Effect

Number of U.S. golfers mirrors fortunes of Woods



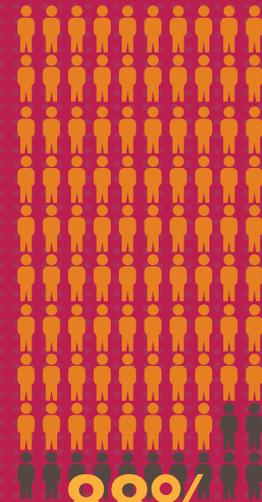
Source: National Golf Foundation

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