

Bloomberg Reports

QuickTake

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MARCH 2017

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Central Bank Independence

By Christopher Condon

After inflation ran amok in the 1960s and 1970s, many central bankers fought for, and won, more freedom to set interest rates and make other monetary policy decisions without political interference. Their shields began to crack after the 2008 financial crisis. In the years since the bankers deployed trillions of dollars to save the global financial system, the public's faith in their work has been falling. Critics say independent central banks are too secretive and put banks before taxpayers, so it's time for more public control. Central bank officials counter that they need to be free from political pressures to curb inflation, promote full employment and maintain financial stability. But the "trust us" mantra is increasingly a tough sell.

The Situation

On the campaign trail, Donald Trump accused U.S. Federal Reserve Chair Janet Yellen of holding interest rates low to help Democratic candidate Hillary Clinton. Republicans in Congress also have the Fed in their sights. Under the cry of "audit the Fed," they're preparing legislation that would subject monetary policy to review by Congress, reduce the Fed's regulatory and emergency-lending authority and require policy makers to follow a formula for setting interest rates. In the U.K., Prime Minister Theresa May has said the Bank of England's policies widened inequality, and some politicians have called for more central bank oversight. The staff at the Reserve Bank of India complained of the government's "unwarranted interference" following November's botched withdrawal of high-denomination bank notes. Turkish President Recep Tayyip Erdogan has pressured the supposedly independent central bank to cut interest rates. In the past two years, central bank

chiefs were ousted by presidents in countries including Algeria, Kazakhstan and Venezuela.

The Background

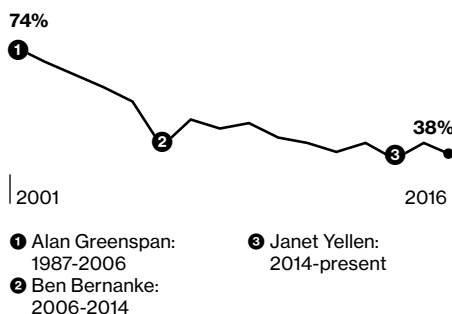
The modern notion of central bank independence evolved over time. Following the Great Depression, the U.S. Congress gave the Fed more power to set monetary policy. Still, it wasn't free from political arm-twisting: Both Presidents Lyndon Johnson and Richard Nixon pressured Fed chairs to keep interest rates low. In the 1970s, Congress clarified its mandate – to strive for full employment and stable prices with moderate long-term interest rates. Fed Chair Paul Volcker's drastic efforts to curb runaway inflation with a record-high 20 percent benchmark interest rate helped cause the recession of 1981-82 and attracted fierce criticism – but soon brought prices under control and set the scene for steady growth. As a result, the case for central bank independence gained ground. The Bank of England was granted operational independence in 1997. The European Central Bank, created in 1998, was independent from the outset. But lately there's been movement in the opposite direction. Germany criticized the ECB for buying bonds from ailing economies like Greece and Italy and for spending trillions on quantitative easing in an effort to fend off deflation. The Bank of Japan agreed in 2013 to coordinate policy with the government, a move some called an alarming attack on its independence. Most of the recent congressional attacks on the Fed stem from the financial crisis. The central bank was blamed for failing to foresee and prevent the crisis, and for its later role in bailing out some of the very financial institutions that helped cause the disaster.

The Argument

A widely cited 1993 paper by Alberto Alesina and former U.S. Treasury Secretary Lawrence Summers concluded that independent central banks are better at controlling inflation than central banks under political control. Shielded from pressures of day-to-day politics, the paper noted, they can make unpopular decisions and take a longer view. The Fed's Yellen has restated this case in congressional testimony. Supporters of the current Fed arrangements add that reports to Congress and financial audits by the U.S. Government Accountability Office provide plenty of oversight. But some economists disagree. Joseph Stiglitz has argued that economies with independent central banks don't always do better in financial crises. Besides, he's said, "all public institutions are accountable, and the only question is to whom." Meanwhile, as central bankers turn to new tools like QE, a hybrid of fiscal policy and monetary policy, they've taken on more of the economic responsibilities that normally fall to governments. The broader their tasks and the wider the effects, the more politics is bound to intrude – and the harder it will be to leave central banking to the central banks.

Faith In Fed Chairs

Percent of Americans who said they had a great deal or a fair amount of confidence that the U.S. Federal Reserve chair would do the right thing for the economy



MOST RECENT POLL CONDUCTED APRIL 6-10, 2016, WITH 1,015 ADULTS; MARGIN OF SAMPLING ERROR ± 4 PERCENTAGE POINTS; SOURCE: GALLUP

20%

Record-high level for U.S. Federal Reserve benchmark interest rate, 1980

Productivity

By Sho Chandra

The idea is simple: A nation's productivity is calculated by dividing what it produces by the labor it took to provide those goods and services. What's confounding economists is why productivity growth has slowed in many countries during the last decade, even as other economic gauges have improved. There's a lot of disagreement on why — a mismatch between jobs and skills? Fewer innovations? Aging populations? Measurement problems? While the arguments can be arcane, a country's economic well-being depends as much on productivity as it does on hotly debated topics like free trade or national debt. As Nobel Prize-winning economist Paul Krugman has said, productivity isn't everything, but in the long run it's almost everything.

The Situation

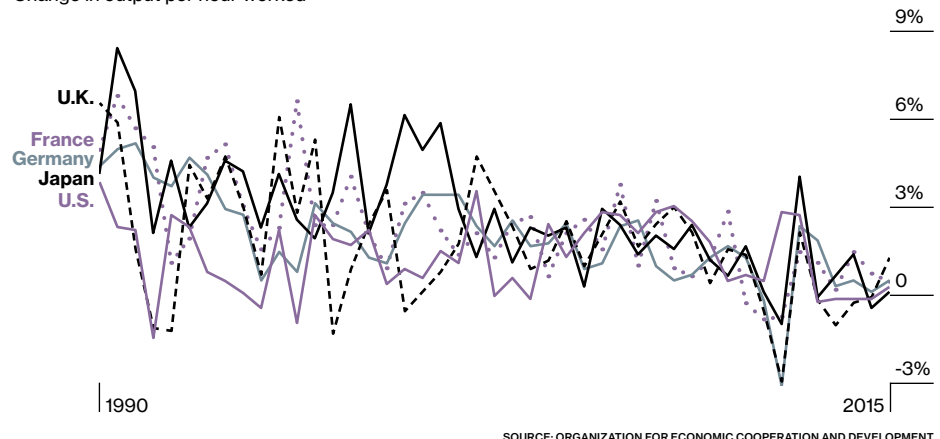
U.S. productivity gains were halved in the last decade compared with their average from World War II through 2006. In the U.K., it took eight years for productivity to finally return to the level it was at before the 2008 financial crisis. China's productivity growth in 2016 slumped to a 16-year low. These anemic numbers worry economists and government officials, since sustained productivity growth is what ultimately raises living standards. (If workers are producing more per hour, there's more output and income to share.) That's why it's critical to gauge its progress accurately. While it's relatively easy to count the productivity of factory employees, it's harder to measure the efforts of service workers. So the Organization for Economic Cooperation and Development is grappling with how best to construct data and compare progress across nations. Meanwhile, some government agencies' measures are lagging behind real-world changes. In May, the U.S. Bureau of Labor Statistics will conduct its first survey of temporary workers since 2005. Yet the gig economy has been roaring for years — Uber drivers started ferrying passengers in 2010.

The Background

Adam Smith observed in his 1776 book, "The Wealth of Nations," that advances like ploughs and grain mills lifted productivity. Henry Ford's company introduced the assembly line in 1913, eventually reducing the amount of time it took to assemble a car from 12 hours to about 90 minutes; the price for a Model T dropped from \$850 to under \$300. In the mid-1950s, U.S. economist Robert M. Solow's research on technology's impact on productivity growth spurred other economists to

Less Productive

Change in output per hour worked



look at all the elements that contribute to output. This led to a more complex measure called total-factor or multi-factor productivity, which calculates the efficiency with which labor and capital are used. Yet service workers' contributions to the economy remained hard to track. In 1998, U.S. Federal Reserve Chairman Alan Greenspan said it was "simply not credible" that output per hour in some service industries had fallen for two decades. He figured that mismeasurement was the likely cause.

The Argument

Economist Robert J. Gordon argues that the surge of transformative innovation from 1870 to 1970 — mostly involving applications of electricity and the internal combustion engine — is unlikely to be matched in the future. Other economists suggest that productivity numbers may simply be wrong, that they aren't capturing the benefits of advancements in information technology, like GPS and mobile communications. Even as services have grown to make up more than two-thirds

of the global economy, that sector still shows plenty of statistical discrepancies. For example, the productivity of U.S. hospitals has barely increased over the past decade, even as premature deaths from diseases have declined. There are theories suggesting that current workers don't have the skills needed for a modern workplace. Others point to sluggish business investment in recent years. And there are optimistic economists who think the next productivity leap is coming because societies have only just begun to exploit advances like robotics and artificial intelligence. Though central bankers also don't agree on why productivity has been so low, European Central Bank President Mario Draghi and Fed officials say infrastructure improvements would goose productivity. Better transportation systems speed worker and product movement; reliable electrical grids reduce downtime. President Donald Trump has said he wants "to invest \$550 billion to ensure we can export our goods and move our people faster and safer."

U.S. Sanctuary Cities

By Jordan Yadoo

Donald Trump's November victory owed little to the largest U.S. cities, which voted against him in force. Early on in Trump's presidency, there's no sign of warming relations. Elected leaders in Chicago, New York, Los Angeles, San Francisco, Philadelphia, Seattle and other major cities have vowed to stand up to Trump by continuing to withhold their cooperation from immigration-enforcement efforts. Trump signed an executive order that threatens to block federal funding to such "sanctuary cities," setting up a state-federal legal battle that lost no time in reaching the courts.

1. What's a sanctuary city?

While there's no official definition, the label generally applies to cities (or counties, or other jurisdictions) that declare they won't assist in immigration enforcement and deportation efforts. The phrase has been used for decades by governments that have policies offering some level of welcome to undocumented aliens. These policies were introduced in the 1980s in response to hundreds of U.S. churches and synagogues providing safe haven for Central Americans fleeing civil conflicts.

2. Does it offer genuine sanctuary?

No. No jurisdiction is beyond the reach of federal immigration authorities. Policies in sanctuary cities, however, can make it less likely that an undocumented alien will come to the attention of federal officials or wind up in their hands. Many sanctuary cities refuse to honor "ICE detainers," or requests from the U.S. Bureau of Immigration and Customs Enforcement to hold someone in custody for an additional 48 hours.

3. How many sanctuary cities are there?

There's no definitive list. The San Francisco-based Immigrant Legal Resource Center, which supports the sanctuary movement, says at least 635 U.S. counties – more than one in five – refuse to hold people in jail on federal

detainer requests, while at least 53 counties prohibit using local resources to assist federal immigration enforcement.

4. What is Trump's objection?

He says sanctuary cities "are not safe" and "breed crime," though there's little evidence of a correlation between immigration and crime rates. Trump cites anecdotes such as the fatal shooting of a 32-year old woman in San Francisco in July 2015, allegedly by an undocumented immigrant with a criminal record. (The accused, a Mexican national named Juan Francisco Lopez-Sanchez, is going on trial for murder.)

5. What is Trump doing about it?

His Jan. 25 executive order directs the withholding of federal grants, "except as deemed necessary for law enforcement purposes," from jurisdictions that refuse to cooperate with federal immigration officials. It doesn't specify which sources of federal funding will be targeted, though the likely options include money distributed by the departments of Justice and Homeland Security.

6. How much money could be at stake?

At the moment, guesses range from tens of millions to billions of dollars, depending on what funding sources Trump targets and whether courts permit him. Fitch Ratings says the cuts aren't likely to be steep enough to affect the

bond ratings of sanctuary cities, since federal grants mainly flow to specific programs – like Temporary Assistance for Needy Families and school-lunch subsidies – rather than to general government operations.

7. Do sanctuary cities oppose federal immigration laws?

Not necessarily. Generally speaking, leaders of sanctuary cities just don't want their local law enforcement personnel to be active participants in enforcing those federal statutes. Requiring local police to inquire into immigration status, or to detain a suspected undocumented immigrant who would otherwise be free to go, would spur racial profiling and discourage immigrants from reporting crimes or seeking needed services, according to this line of argument.

8. What do those cities do with undocumented immigrants?

The ILRC identifies seven different types of "sanctuary" policies. They include barring federal agents from secured areas of local jails without a warrant and prohibiting local officers from participating in joint patrols with federal agents.

9. How can they do this?

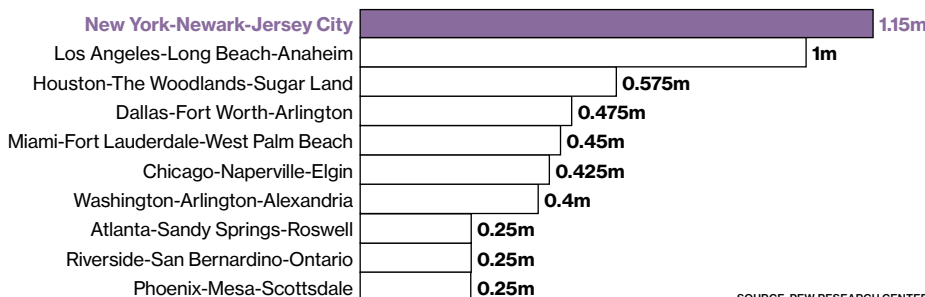
In a 1997 ruling, the Supreme Court held that the federal government can't require state officials to enforce federal law, a doctrine known as the "anti-commandeering principle."

10. What's been the response to Trump's order?

San Francisco filed a lawsuit against the order on Jan. 31. The mayors of New York and Boston, among other city leaders, spoke out in continued support of their sanctuary city protections. But Trump's threat did have an impact in at least one place: The mayor of Miami-Dade County ordered the city's jails to comply with federal requests going forward.

Highly Concentrated

About 47 percent of the U.S.'s 11.1 million unauthorized immigrants live in just 10 major metro areas



SOURCE: PEW RESEARCH CENTER

H-1B Visa Reform

By Saritha Rai and Peter Elstrom

President Donald Trump may join members of Congress from both parties in trying to overhaul the visa programs used by corporations to bring overseas workers to the U.S. The implications are complicated and far-reaching, particularly for India and Silicon Valley technology companies.

1. Which programs are under scrutiny?

Companies use a variety of visas to bring in workers from abroad, including the B-1, the L-1 and the best-known H-1B.

2. What does the H-1B program do?

It allows companies to recruit 85,000 employees from abroad each year for specialty positions in fields including technology, science, medicine, architecture and fashion modeling. It took less than a week for applicants to exhaust that allotment in 2016, and technology companies including Facebook, Google, Intel and Cisco Systems have sought to increase the number available. People from India receive more H-1Bs than any other nationality.

3. Why does the U.S. have these programs?

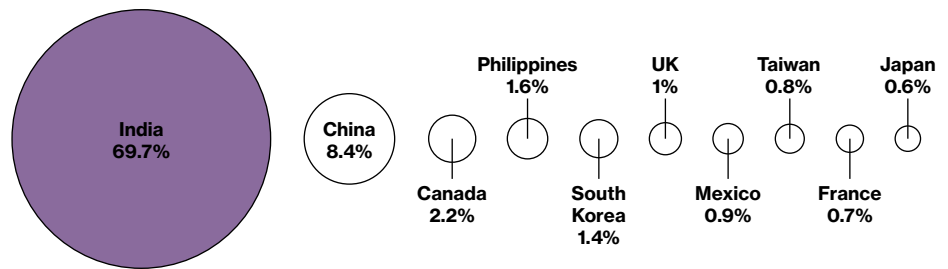
They were designed to allow U.S. companies to hire temporary workers from other countries when they couldn't find qualified people domestically. These temporary visas were established under the Immigration and Nationality Act of 1952. The programs have morphed over the years, and many of the visas now go to companies that pay foreign workers less than their American counterparts would receive. The total number of visas issued for temporary employment-based admission to the U.S. grew to more than 1 million in 2014 from just over 400,000 in 1994, according to the Congressional Research Service. Those numbers included some unskilled and low-skilled workers, plus accompanying family members.

4. Do the programs need reform?

It's pretty clear the H-1B program and others have been used in ways that contradict their original intent. There have been allegations of abuse and at least one big settlement: In 2013, a Bangalore-based outsourcing company, Infosys Ltd., agreed to pay a record fine

Who Gets H-1B Visas

Percentage of H-1B visas in fiscal 2014 awarded to people born in each country



SOURCE: U.S. DEPARTMENT OF HOMELAND SECURITY

of \$34 million to settle U.S. allegations that it sent employees to the U.S. with B-1 visitor visas to sidestep the caps on H-1Bs.

5. What does Trump propose?

During his presidential campaign, he said the H-1B program is a "cheap labor program" that takes jobs from Americans. He hasn't yet detailed his ideas as president, but based on a draft executive order, his administration may push companies to try hiring American workers before turning to foreign ones – a step that isn't necessary now – and make it more difficult for lower-paid roles to qualify for H-1B skilled-worker visas. He's also asked that the programs give priority to the most highly paid workers from abroad.

6. Who gets priority now?

Currently, H-1B visas are allocated by lottery, with no priority given to companies that pay workers more. The biggest recipients of the visas are outsourcing companies, including India's Tata Consultancy Services Ltd., Wipro Ltd. and Infosys. They pay workers in the program an average of about \$65,000 a year, while Apple Inc., Google Inc. and Microsoft Corp. pay their H-1B employees more than \$100,000.

7. Can Trump act on his own?

An executive order can begin the reform process, but Trump lacks the broad

powers of Congress. For example, he can't change the number of H-1B visas that are given out each year, but he probably can change the way they're allocated. So he could order that priority be given to higher-paid workers.

8. What might Congress do?

Congress has tried many times in the past decade to change the work-visa programs, with limited effect. Measures offered in the House of Representatives by two California lawmakers, Republican Darrell Issa and Democrat Zoe Lofgren, aim to overhaul the program by raising the annual wages for some H-1B workers. The legislative push has spooked India's technology companies, weighing on their stocks. A bipartisan proposal in the Senate, long pushed by Republican Chuck Grassley and Democrat Richard Durbin, would forbid replacing U.S. workers with H-1B hires and prioritize visa applications from people who earned degrees at American universities.

9. Will Silicon Valley be hurt by the changes?

It depends on the details, of course, but the U.S. tech industry may well come out on top. Because so many H-1B visas go to outsourcing firms, American high-tech companies haven't been able to get as many visas as they would like. They could benefit if outsourcers face more restrictions.

Public-Private Partnerships

By Brian Eckhouse, Amanda Albright and Martin Z. Braun

Boston's Big Dig, rerouting its central highway underground. New York City's Second Avenue subway extension. The Denver International Airport. Landmark American public works, paid for the traditional American way: the government borrows money, usually before the first shovel goes into the ground. Canada, Australia and much of western Europe do infrastructure differently. There, consortiums of private companies raise money and design, build and operate projects for terms that generally run 30 years. In return, governments make yearly payments or dedicate a revenue stream, such as toll receipts, for the life of the contract. At their best, these public-private partnerships, or P3s, as they're known, make infrastructure projects faster and cheaper. At their worst — well, ask Chicago about its parking meters.

The Situation

In his campaign, U.S. President Donald Trump supported a \$1 trillion investment in infrastructure improvements over a decade. In his inaugural address, he said he intends to build “new roads, and highways, and bridges, and airports, and tunnels, and railways all across our wonderful nation.” He’s talked about doing it through P3s. His campaign floated the idea of using tax credits worth 82 percent of the cash a consortium put up for a project to entice developers. Democrats have countered with a \$1 trillion infrastructure plan that would rely on federal investments and grants. Public-private partnerships are still rare in most U.S. states: Only five such projects completed financing in 2015. But interest in P3s is growing. The Port Authority of New York & New Jersey turned to a partnership for its \$4 billion overhaul of a terminal at New York’s LaGuardia Airport.

The Background

Some scholars trace the P3 concept back to the Roman Empire, which gave investors contracts to build and operate postal stations and highways. The U.S. chose a different path: New York State sold bonds to build the Erie Canal in the early 19th century after the federal government refused to provide funds. Other states and municipalities followed suit. In the 1960s, Spain and France began experimenting with inviting developers to construct and operate highways in return for tolls. Their initial appeal was as a way to avoid the big upfront costs of the traditional public project. Countries that used the strategy often found projects could be delivered faster and cheaper. For projects that don’t

deliver a built-in revenue stream like tolls, governments can make what are known as availability payments that are akin to rent-to-own arrangements. These can include “shadow tolls” — per-car fees paid by the government rather than drivers. In such deals, details can make all the difference: In 2008, Chicago leased 36,000 parking meters for 75 years to an investor group led by Morgan Stanley in return for \$1.1 billion. The city’s inspector general later concluded that in its rush to plug a short-term budget gap, the city undersold the rights by almost \$1 billion, infuriating residents.

The Argument

Trump’s commerce secretary, investor Wilbur Ross, has suggested that in a public-private infrastructure plan, the new tax revenue from P3 projects would offset \$140 billion in tax breaks for investors, a claim even some conservatives consider dubious. House Speaker Paul Ryan says he won’t support infrastructure spending without offsetting budget cuts. Economist Paul Krugman is among critics who describe Trump’s plan as corporate welfare, since it would pay developers to take on projects

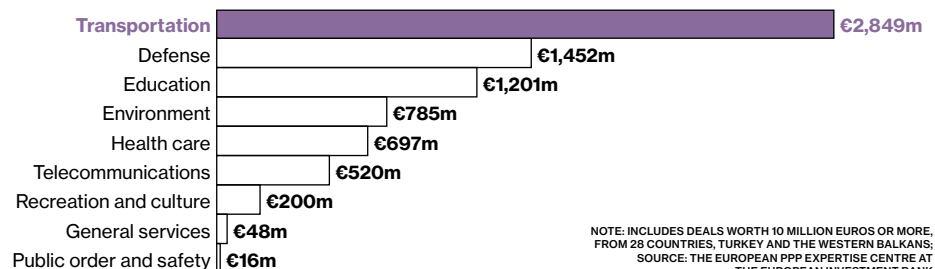
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Number of U.S. P3 projects completing financing in 2015

profitable enough to be appealing without the government subsidy. Other critics say revenue-producing assets will be favored over things like much-needed rural water projects. In the U.K., critics complain that the P3 model is sometimes used to hide government spending, since annual payments to a consortium look smaller than a big bond to raise funds. A study by the U.S. Federal Highway Administration found that while public opinion about the use of P3s in the U.K. was mixed, many people confused them with privatization plans. Specific partnership projects generally got stronger support.

Europe's P3 Projects

Value of public-private partnership deals, first half of 2016



NOTE: INCLUDES DEALS WORTH 10 MILLION EUROS OR MORE, FROM 28 COUNTRIES, TURKEY AND THE WESTERN BALKANS; SOURCE: THE EUROPEAN PPP EXPERTISE CENTRE AT THE EUROPEAN INVESTMENT BANK

China's Monetary Toolkit

By Robin Ganguly

China's central bank has assembled a unique and ever-more complex toolkit to fine-tune the world's second-biggest economy. Once largely reliant on benchmark rates, the People's Bank of China has in recent years used various instruments to guide borrowing costs and keep interest rates within a specific range. Key weapons in the PBOC's armory are known by English-language acronyms or — increasingly — by the Sichuan dishes whose Chinese consonants match those acronyms. Here's a partial glossary:

Open-Market Operations (OMO)

These contracts are the most frequently used and offer mainly short-term loans to banks. Depending on the size of the funds added and the amounts that mature, the operations can result in either a net injection or withdrawal of cash from the financial system. While the tenors (time to maturity) can range from seven days to several years, the one-week, 14-day and 28-day contracts are the most common. They have an immediate effect on the money market, pushing rates one way or the other. In February 2016, the PBOC moved to daily, rather than twice-weekly, OMOs to improve their effectiveness. The operations are carried out using what are known as reverse-repurchase agreements, in which banks offer bonds as collateral to borrow funds from the PBOC and agree to return the money at a future date. The central bank also uses repurchase agreements, which drain cash, as well as bill sales in its OMOs.

Medium-Term Lending Facility (MLF)

Also known as: numb and spicy noodles (ma la fen)

Introduced in September 2014, these give the PBOC more control of the amount and duration of funds held by banks, when compared with changing benchmark interest rates. The PBOC can tweak the interest rate on the funds, as it did on Jan. 24, to deflate bubbles and reduce leverage. The loans come in three tenors: three, six and 12 months.

Standing Lending Facility (SLF)

Also known as: sour and spicy noodles (suan la fen)

This liquidity support tool is aimed mainly at small- and medium-sized financial institutions. It is similar to the Federal Reserve's discount window and the European Central Bank's Marginal Lending Facility. It was started in 2013

and its maximum maturity has been kept at one month or below for the past two years.

Short-term Liquidity Operations (SLO)

Also introduced in 2013, these have maturities of no more than seven days and, as stated by the PBOC, are meant to address temporary fluctuations in the money market. Since the central bank's move to daily open-market operations in 2016, the need for SLOs may have diminished.

Pledged Supplementary Lending (PSL)

This program is used to fund three policy banks tasked with financing government projects such as shantytown development. They are the Agriculture Development Bank of China, China Development Bank Corp. and the Export-Import Bank of China.

Temporary Liquidity Facility (TLF)

Also known as: sweet and spicy noodles (tian la fen)

The newest tool in the PBOC's kit, the TLF has been used just once so far. On Jan. 20, the central bank said it had provided 28-day funds to some major commercial lenders to help ease a cash crunch before the Lunar New Year holidays. The cost of the new facility was around the same as for similar-term open-market operations. Details of the instrument have been sparse so far, with state-run broadcaster China Central Television saying that it doesn't require any collateral.

Reserve-Requirement Ratio (RRR)

One of the traditional methods of controlling liquidity, changing the percentage of deposits that banks must set aside as reserves can release or pull cash from the financial system. The effects are broad-based and can raise or lower the supply of currency, as well as encourage more lending in case of a

reduction. The PBOC last cut the RRR in early 2016 to 17 percent for major banks, still among the highest in the world.

Benchmark Rates

Another one from the old guard, the PBOC's one-year lending and deposit rates have been unchanged since October 2015. They form the basis upon which commercial banks set deposit rates for savers and lending rates for companies and mortgages.

Relending

This is another form of lending to financial institutions that traces back to 1984, when the PBOC officially became China's central bank. In recent years, the proportion of relending in base money supply has been falling, and the central bank uses it mainly for structural purposes, such as to support the agricultural sector and for poverty relief.

Rediscounting

The rediscount rate is the interest rate that the PBOC charges borrowers through commercial banks. It has remained unchanged for the past six years, data compiled by Bloomberg show.

And...

A few other liquidity-management tools fall a little outside the definition of monetary policy. These include "window guidance," where the central bank gives verbal orders to the nation's biggest lenders. The advice can range from keeping the pace of loan growth to specific requirements on cross-border fund flows. And then there are X-Repos, which allow lenders to submit bids for repos anonymously with rules prioritizing best prices and earliest bids. The PBOC is said to have instructed banks to offer X-Repos (the "X" signifies anonymity) on Dec. 20, 2016.

Qatar's Bets

By Mohammed Sergie

The Persian Gulf emirate of Qatar is tiny, but it's made a name for itself by placing big bets. Thanks to vast reserves of natural gas, its 2.6 million residents enjoy the world's highest per-capita income: \$129,700 a year. Qatar has acquired more than \$335 billion worth of assets around the globe, buying up trophies such as London's Shard, the tallest building in Europe. The emirate has also drawn attention as an outsized power-broker in a volatile region, and it will be center stage globally in 2022 as the host of the World Cup. Qatar's bets haven't always panned out as expected. Its support for opposition groups challenging other Arab governments has enraged Qatar's neighbors, and so far its soccer preparations have attracted mostly bad press. Qatar is still figuring out how to stay in the deal-making business.

The Situation

After huge investments made Qatar the world's largest exporter of liquefied natural gas, reduced prices amid a global LNG production glut have driven a downturn in the country's fortunes. Emir Sheikh Tamim Bin Hamad Al Thani, who assumed the throne in 2013, has focused more on domestic affairs than foreign adventures. Qatar's first budget deficit in 15 years has prompted the government to restrain spending. The state-backed satellite TV station Al Jazeera has shed employees and shuttered its U.S. operations. After a probe by soccer's governing body, Qatar was cleared of charges that it secured the World Cup through bribery. The preparations have been clouded by reports of abuse of migrant workers building the facilities. The country's sovereign wealth fund hasn't lost its appetite for high-profile deals: In the last few months, Qatar pumped money into Turkey's biggest poultry producer and Russian oil giant Rosneft. It's the third-biggest shareholder in Germany's Volkswagen and remains one of the largest investors in Barclays, after it helped rescue the U.K. bank during the 2008 financial crisis.

The Background

A peninsula off Saudi Arabia's eastern coast, Qatar emerged from the shadow of its powerful neighbor in 1995 when Emir Tamim's father, Hamad Bin Khalifa Al Thani, overthrew his father in a bloodless coup and put Qatar on an ambitious course. Al Jazeera launched the next year, breaking regional tradition by including news that embarrassed Arab leaders. When Saudi Arabia ejected the U.S. air operations center for the region in 2003, Qatar took it on; today the emirate hosts 10,000 U.S. troops. In the Arab Spring uprisings that began in 2010, Qatar, uniquely among Middle Eastern governments, broadly supported groups agitating for change – as long as they weren't in Persian Gulf neighbors. The emirate's leaders backed Muslim Brotherhood groups challenging authorities in Libya, Syria, Tunisia and Egypt, calculating that they would prevail and confident that Qatar's own prosperous population would not rebel. Since then, Brotherhood groups have mostly foundered, and Qatar reeled back its support for them in 2014 when faced with diplomatic threats. In Qatar itself, political parties are

\$335b

Qatar's asset purchases around the globe

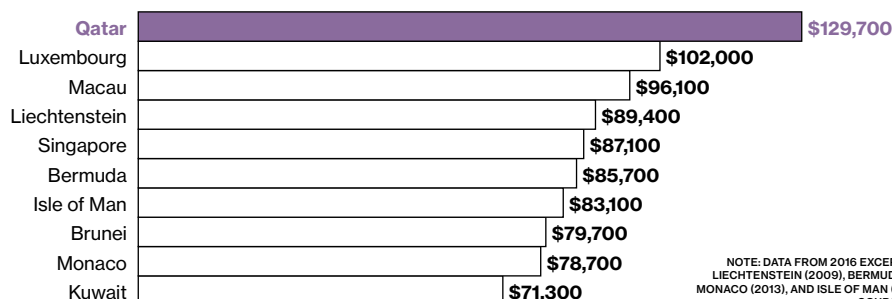
prohibited and freedom of expression is severely limited. Just 300,000 of Qatar's residents are citizens; the rest are foreign workers with few rights.

The Argument

Qatar aspires to become the region's indispensable mediator. Its leaders have connections with a wide range of actors, such as warring tribes in Libya as well as both the U.S. and the Taliban. On the other hand, by choosing sides during the Arab Spring revolts, it weakened its legitimacy as a neutral party. Relations with Saudi Arabia remain cool, and its ties with Iran, once cordial, are tense. The capacity of Qatar's leaders to focus on foreign affairs is being squeezed by the pressure of domestic concerns. Like other petro-states, Qatar is determined to diversify its economy to reduce dependence on finite fossil fuels, though some analysts are questioning the value of spending on infrastructure projects for the World Cup. Still, Qatar's gas reserves aren't apt to run out soon: By one estimate, they'll last another 135 years. The government continues to face very little open opposition, but it does have critics. And a planned reduction in public sinecures invites more citizens to question their riches-for-silence contract with the monarchy.

World's Richest Countries and Territories

GDP per capita adjusted for purchasing power



NOTE: DATA FROM 2016 EXCEPT FOR LIECHTENSTEIN (2009), BERMUDA AND MONACO (2013), AND ISLE OF MAN (2007); SOURCE: CIA

Moving the U.S. Embassy to Jerusalem

By Jonathan Ferziger

What's the capital of Israel? Israelis say it's Jerusalem, and indeed the prime minister's office is there, as well as the parliament, the highest court and most government ministries. No other country, however, recognizes Israeli sovereignty in Jerusalem. It's considered disputed territory, subject to negotiation with the Palestinians. All the embassies in Israel are in Tel Aviv, 70 kilometers to the west. So Israelis perked up when Donald Trump, during the U.S. presidential campaign, vowed to relocate the American embassy to Jerusalem, a move that would lend legitimacy to their claim to the city. Israelis have heard this promise from presidential candidates before, only to see it broken after the new president took office. At a press conference with Israeli Prime Minister Benjamin Netanyahu in Washington, Trump said that he would "love to see" the embassy move happen and that his administration was "looking at it with great care."

1. What's so special about Jerusalem?

Jerusalem is sacred to followers of the three major monotheistic religions. It is home to the Temple Mount, the holiest site in the world for Jews, who come from around the world to pray at the Western Wall, the last remaining supporting wall of the biblical temple. Muslims revere the same plateau as the Noble Sanctuary, where the Al-Aqsa mosque stands as the third-holiest place in Islam, after Mecca and Medina. Not far away in Jerusalem's Old City is the Church of the Holy Sepulchre, which Christians revere as the site of Jesus's tomb. When the United Nations voted in 1947 to divide British-ruled Palestine into separate Arab and Jewish states, it didn't want either side controlling Jerusalem, due to its religious resonance. Instead, it set aside the city as an international zone to be administered by a UN council of trustees.

2. So why does Israel control it?

Arab states rejected the UN partition plan for Palestine and launched a war against the fledgling Jewish state. The war left Israel in control of west Jerusalem, where the bulk of the Jewish population lived, and Jordan

in control of the mostly Arab eastern side, containing the holiest sites. In 1967, Israel captured east Jerusalem in the Six-Day War and formally annexed those portions of the city to form one municipality under Israeli law. In 1980, its parliament passed a law declaring "complete and united" Jerusalem to be Israel's capital. Most nations rejected the move. The only two that complied, Costa Rica and El Salvador, eventually moved their diplomatic posts to Tel Aviv under pressure from Arab states.

3. Does anyone still envision an international zone?

Not really. Vatican officials have periodically called for an "internationally guaranteed special statute" for Jerusalem. However, the U.S., Russia, the European Union and the United Nations, acting collectively to advance peace between Israel and the Palestinians, have embraced the position that it's up to the two sides to negotiate the status of Jerusalem. Palestinians insist the city must be their capital and have picked a spot to build their parliament in east Jerusalem's Abu Dis neighborhood. Netanyahu's government says Jerusalem will remain the "undivided and eternal capital" of the Jewish people.

4. What has the U.S. position been?

Presidents Bill Clinton and George W. Bush vowed as candidates to move the embassy to Jerusalem but backed away once in office amid warnings that the move could spark Arab violence or scuttle peace talks. The U.S. Congress passed a law in 1995 requiring that the embassy be moved to Jerusalem by 1999,

but the legislation included a provision allowing the president to waive the move for six months in the interest of national security – and that's what has happened ever since. Before leaving the White House, Barack Obama signed the waiver for a last time on Dec. 1, meaning Trump will have to show his own cards by the end of May.

5. What would a move entail?

The U.S. has no facility in Jerusalem big enough to house the work of its embassy in Tel Aviv. It could build one, which would take years. Since 1989, it has leased from the Israeli government a large plot of land in Jerusalem's Talpiot neighborhood, presumably for a future embassy. Robert Satloff, head of the pro-Israel Washington Institute, argues that Trump could fulfill his promise by moving the American ambassador's office to an existing U.S. facility in Jerusalem.

6. What might happen if the embassy were moved?

Predictions range from a new war to violent protests to nothing other than diplomatic complaints. Palestinian leaders have suggested they might withdraw their recognition of Israel and shut down the Palestinian Authority, effectively ending any cooperation with Israel. Some analysts suggest Trump could mitigate the backlash by placing the embassy in mostly Jewish west Jerusalem and enlisting leaders in Jordan, Egypt and the Persian Gulf to make the case that the move wouldn't prejudice a decision on the status of east Jerusalem in future negotiations.

1999

When a U.S. embassy was to open in Jerusalem, according to a law passed in 1995

How To Spot a Populist

By Marc Champion

Few terms have had as sudden a resurgence in recent years as populism. It's used daily to describe a phenomenon visiting the developed world, as political leaders such as Donald Trump in the U.S., Nigel Farage in Britain, Marine Le Pen in France and the comedian Beppe Grillo in Italy take on the establishment. These individuals have varying political agendas, as did notable populists of the past. What unites them is a style of politics.

1. What's a populist?

Unlike socialism, fascism, liberalism, Islamism and pretty much every other "ism" in politics, populism has little content. Cas Mudde, an associate professor at the University of Georgia, has called it a "thin" ideology that amounts to the belief in a "pure" people and a corrupt elite. The simplest way to think about populism may be as a tool box for conducting politics of any flavor. There is little of substance connecting populist Hugo Chavez, the late radical socialist leader of Venezuela, with the U.K.'s Farage, whose economic preferences lean toward the conservatism of Margaret Thatcher.

2. How can you identify one?

Benjamin Moffitt, a fellow in the department of government at Sweden's Uppsala University identified three core requirements after studying 28 populist leaders over history:

- An appeal to "the people" against the elite
- "Bad manners," Moffitt's coy term for the deliberate use of shocking language to establish that the populist leader is not one of the elite and is channeling "the people"
- The use of – or manufacture of – a crisis, to justify the call to revolt

3. Don't all politicians appeal to 'the people'?

Yes, but by including everyone except the reviled elite, populists make a pitch that they alone represent the will of all ordinary people. Their opponents, then, can be cast as opposing "the people," and thus as undemocratic and illegitimate. It's what makes populists a particularly polarizing force.

4. Why do voters put up with 'bad manners'?

The party of Dutch politician Geert Wilders is topping opinion polls ahead

of March elections in the Netherlands, even though he described the Koran as Islam's Mein Kampf. Even if few of his voters would agree with the characterization, it signals that he's on their side in trying to shock the liberal establishment into treating immigration as a problem. Similarly, Trump gets cheered for statements that would destroy an ordinary politician's career. When "the elite" criticize him for bigotry or sexism, he's just confirmed as one of "the people."

5. Why the need for a crisis?

A sense of crisis justifies what is essentially a call for revolution: to overturn "the elite" and all it stands for. Historian Niall Ferguson and others have argued that financial crises are among the factors that give rise to populist movements. Ferguson has written that the 2008 financial meltdown convinced many Americans there was "an unhealthy and likely corrupt relationship between political institutions, big business and the media" that needed tearing down. Populists often exaggerate to create the impression of high stakes. That may help explain why Trump, in his inauguration speech, characterized the state of the union as "carnage."

6. How does popularity relate to populism?

Populists, even more than other politicians, need to be popular to succeed. Winning elections is important, but so is the size of their election victories, the crowds they can draw or their Twitter followings. Those factors support their claim to represent the people's will. That helps explain the Trump administration's devotion in its initial days to contesting low crowd estimates at the inauguration and Trump's loss of the popular vote in November. But of course, Farage's U.K. Independence Party managed to force a referendum on European Union membership without

ever winning more than one seat in Parliament.

7. So are populists good or bad for democracy?

Not necessarily either. Some political scientists describe populism as a pathology of democracy, because it grows from it and can also destroy it. There is a reason populists tend to gain popularity when they do: They seem to offer a corrective to democracies that have lost their representative power. Claiming to represent the will of "the people," populists can promise a fresh start that's appealing.

8. What happens when a populist gets into office?

Because populists make big promises to shake up society, they tend to bump up quickly against democratic checks and balances – in particular the courts and media – that were designed to limit what governments can do. The temptation then becomes to declare these institutions part of an elite conspiracy to block the people's will and attempt to crush them.

9. Examples, please?

In Poland, for example, the Law and Justice Party came to power in 2015, promising to sweep out an allegedly corrupt ex-Communist elite. When the country's constitutional court began to strike down laws the new government passed, it declared the judges partisan, ignored their rulings and legislated to neuter the court. Hungary's populist Prime Minister Viktor Orban was rapped by the EU for similarly undermining the independence of his country's constitutional court when it opposed him. In Trump's first month in office, a federal judge blocked his order to suspend entry to the U.S. by refugees and anyone from seven predominantly Muslim nations, prompting the president to attack him as a "so-called judge." Trump has also called the media "the enemy of the American people."

Twitter's Struggles

By Sarah Frier

At any given moment, millions of people around the globe are using Twitter to share news and opinions, gossip and jokes. At least some are also debating Twitter's fate. It's the social media giant that nobody wants to buy and the favored communication tool of U.S. President Donald Trump. How can a company be such a success and failure at the same time?

1. In what way is Twitter struggling?

Being liked by the president doesn't translate into profit. Its fourth-quarter revenue of \$717 million fell short of the \$740 million average analyst estimate. Sales growth was 1 percent, way down from 48 percent a year earlier. As fewer people join – Twitter added 2 million new users, bringing the total number of people who log in monthly to 319 million – the company has had trouble wooing advertising dollars.

2. Wasn't 2016 a big year for Twitter because of Trump?

It was a big year for the company name to be in the news. Tweeting was the medium of choice for Trump the candidate, and despite predictions to the contrary, he's continued to rely on it as president. But Trump's Twitter-focused campaign had no noticeable impact on user growth or time spent on the site, according to Twitter executives. Though Trump makes waves around the globe with his tweets, his audience of 24.3 million followers is only about one-fourth the size of singer Justin Bieber's.

3. What's the problem?

Getting started on Twitter takes some work. Not everyone wants to go through

the trouble of curating a list of strangers and media organizations to follow, and some people can't quite imagine what to use Twitter for. If you're not a celebrity, politician, journalist or sports figure, you might not have much you want to say, or people who want to hear it. Twitter's monthly active user number has hovered around 300 million for the last couple of years. Twitter may never be as big (or as rich) as Facebook, which had 1.86 billion monthly users in the fourth quarter.

4. And that translates to revenue?

Right. Advertisers wonder why they should be increasing their budgets on Twitter if there aren't many new people to sell to. Investors pay a premium for tech company stocks because of their rapid growth. Twitter's has slowed dramatically, so it no longer deserves the kind of valuation that Facebook or Amazon get.

5. What is Twitter doing about that?

To appeal to those without accounts, Twitter now streams live television, so there's a reason to visit even if you don't care what the Kardashians are saying about their makeup.

319m

Monthly users

Via Twitter you can watch an NFL game or a live news broadcast, even Bloomberg's. That opens up new advertising opportunities.

6. What else can Twitter do?

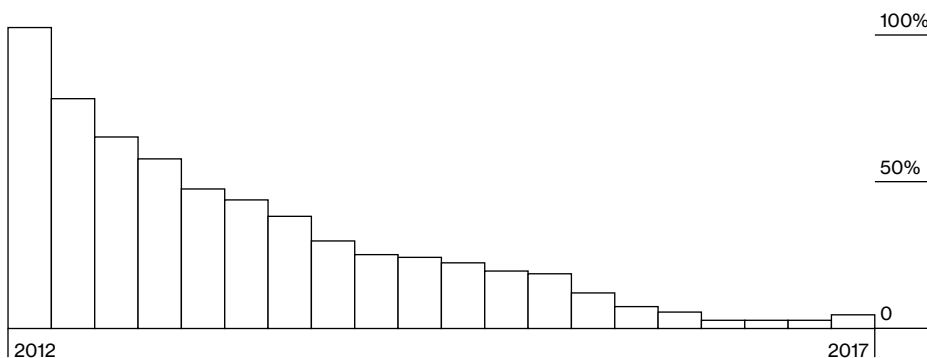
It needs a vision of what its product should be. The company has struggled to demonstrate that it has a strong thesis; even more troubling, it keeps losing key executives. Twitter has changed its head of product once a year on average for the last six years. It got a new (old) chief executive officer at the end of 2015, co-founder Jack Dorsey, who leads Twitter while simultaneously holding the CEO job at Square, a digital-payment company.

7. Will Twitter be sold?

Many analysts expect it will, eventually. Its search for a potential buyer failed in the fourth quarter of 2016, forcing Dorsey to focus on reaching profitability as an independent business. During an informal 2015 sales process, three potential suitors – Salesforce.com, Walt Disney and Google – emerged. None ultimately decided to bid. Twitter was expensive, given the limits to its growth potential, and it carried a lot of baggage, like problems with online harassment and abuse. The company is preparing to go it alone, cutting 9 percent of its staff. But some analysts think the already pummeled stock is still overvalued – and that slow revenue growth could turn into revenue decline this year.

Growth Stalls

Twitter's year-on-year growth in monthly active users



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