

# THE WALL STREET JOURNAL.

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ASIA EDITION

As of 12 p.m. ET DJIA 20559.75 ▲ 0.52% NIKKEI 18355.26 ▲ 0.11%

STOXX 600 380.58 Closed

BRENT 55.43 ▼ 0.82%

GOLD 1289.90 ▲ 0.31%

EURO 1.0657 ▲ 0.41%

DLR \$108.48 ▼ 0.14%

## What's News

Business & Finance

Kleinfield was forced out as Arconic's chairman and CEO, an abrupt departure following heavy pressure from activist investor Elliott Management. **A1**

◆ KPMG's top audit official, Scott Marcello, was supposed to redeem the firm's audit business. Instead, he and four others became the center of a scandal. **B1**

◆ PwC is facing a class-action suit over its pursuit of millennials as employees, part of an emerging wave of litigation that could test age-discrimination law. **B9**

◆ After a robust start to 2017 for emerging-market assets, worries are setting in over lofty valuations amid geopolitical tensions. **B1**

◆ Indonesian motorcycle-hailing startup Go-Jek is in talks with investors to raise \$1 billion. **B1**

◆ United's rules-based culture is seen as a factor in the decision to call for police to remove a passenger from a fully booked flight. **B8**

◆ Ant Financial Services raised its bid for MoneyGram to around \$1.2 billion, topping a rival offer. **B9**

◆ South Korea's National Pension Service, a major Daewoo creditor, said it agreed on a newly proposed bailout package for the shipyard. **B2**

◆ Cloudera gave a price estimate for its initial public offering that values it as high as \$1.79 billion. **B3**

### World-Wide

◆ Pence warned North Korea not to push Trump, calling the recent American military strikes on Syria and Afghanistan an example of Washington's strength. **A1**

◆ South Korean prosecutors indicted former President Park on 18 charges including bribery and coercion. **A3**

◆ China posted its strongest quarterly growth in a year and a half, underlining how the fate of its economy has tilted further into government hands. **A1**

◆ A former top Treasury official in the George W. Bush administration is expected to be Trump's pick for a top post at the Fed. **A6**

◆ Kushner is in talks to sell his stake in a real-estate tech firm as he moves to separate himself from conflicts of interest. **A6**

◆ International observers said a closely contested vote on Turkey's presidential powers contravened Turkish law. **A4**

◆ Arkansas is contesting legal rulings that blocked the state from carrying out its plan to execute at least a half-dozen inmates. **A7**

◆ China's home sales growth slowed in March, but property investment picked up. **A3**

◆ Hundreds of Palestinians in Israeli prisons began a hunger strike to demand better conditions. **A4**

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Vice President Mike Pence, second from right, and his daughters visited the demilitarized zone between North Korea and South Korea.

## Pence Cautions Pyongyang

Vice president says North Korea should not underestimate the resolve of the U.S.

By JONATHAN CHENG

SEOUL—U.S. Vice President Mike Pence warned North Korea not to push President Donald Trump, calling the recent American military strikes on Syria and Afghanistan an example of Washington's strength.

"North Korea would do well not to test his resolve or the

strength of the armed forces of the United States," Mr. Pence said on Monday, after making an unannounced visit to the demilitarized zone that divides the Korean Peninsula.

Speaking alongside South Korea's acting president, Hwang Kyo-ahn, at his residence in Seoul, Mr. Pence pointed to recent unilateral airstrikes by the U.S., first with 59 Tomahawk missiles on an air base in Syria and later with one of the U.S.'s largest non-nuclear bombs in Afghanistan as a warning to North Korea.

"Just in the past two weeks, the world witnessed the

### Ex-President Park Indicted

The charges against former South Korean leader Park Geun-hye, the central figure in a corruption scandal, come five weeks after she was removed from office. **A3**

strength and resolve of our new president in actions taken in Syria and in Afghanistan," Mr. Pence said, underscoring the "message of resolve" that

he said he was bringing to Northeast Asia.

Mr. Pence, whose trip to South Korea follows those of Defense Secretary Jim Mattis and Secretary of State Rex Tillerson, underscores the priority that Mr. Trump has put on North Korea early in his administration.

The U.S. recently said it was sending the aircraft carrier USS Carl Vinson toward the Korean Peninsula amid concerns about possible new weapons tests by North Korea.

Pyongyang's Korean Central News Agency responded to Please see PENCE page A2  
Please see ARCONIC page A7

### INSIDE



#### OPPOSITION TO CHALLENGE TURKEY VOTE

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#### THE RISE OF THE SMART CITY

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## China Growth Reveals State Role

By MARK MAGNIER

BEIJING—China posted its strongest quarterly growth in a year and a half, underlining how the fate of the world's second-largest economy has tilted further into government hands.

The reported growth pace of 6.9% in the first quarter was the result of better-than-expected investment, industrial production and building starts for March—all evidence that last year's easy-money policies and infrastructure spending have developed a momentum of their own.

Much of the firepower has come from state-owned companies and government infrastructure coffers. Government spending ramped up last month and despite Beijing's efforts to crack down on companies' debt levels, there was a rush for loans, much of it going to a property market that has gained new life from the state stimulus.

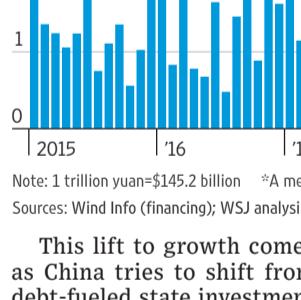
### Designated Drivers

Credit from nonbank sources and a new boom in construction helped drive China's growth to its strongest performance in a year and a half.

#### Total social financing\*

In trillions of yuan

4 trillion

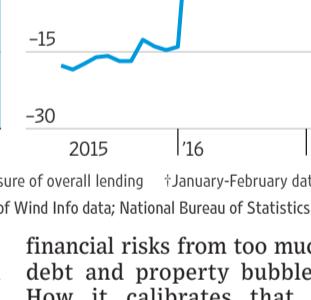


Note: 1 trillion yuan=\$145.2 billion \*A measure of overall lending †January-February data combined Sources: Wind Info (financing); WSJ analysis of Wind Info data; National Bureau of Statistics (GDP growth) THE WALL STREET JOURNAL.

#### Property new starts†

Change from a year earlier

30%

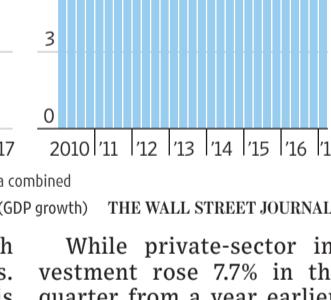


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#### Gross domestic product growth

Change from a year earlier

12%



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## NEIMAN MARCUS FINDS WEALTHY WANT DEALS

High-end retailers are now facing troubles of mass-market chains

By SUZANNE KAPNER  
AND RYAN DEZEMBER

Lysa Heslov used to be a loyal Neiman Marcus shopper. Now, she buys most of her clothes, shoes and handbags at websites that carry the same designer brands, often at cheaper prices.

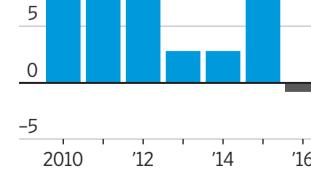
"I price compare now much more than I ever did before," said Ms. Heslov, a 52-year-old documentary film director who lives in Los Angeles.

Neiman Marcus and other luxury retailers were long thought immune to the troubles of mass-market chains—falling foot traffic and the constant price wars that have triggered widespread closure of brick-and-mortar stores.

But high-end chains, which raised prices incessantly over the past decade, are learning the hard way that even wealthy custom-

### Luxury Lag

Global personal luxury-goods market, change from a year earlier



\*Estimate Source: Bain & Co. THE WALL STREET JOURNAL.

ers are hunting for better deals and selection, whether online or at shops run by individual brands.

"Even a very rich person can say, 'Enough is enough,' when it comes to price," said Matthew Singer, Neiman's former men's fashion director, now with his own clothing line.

Sales of personal luxury goods, such as designer apparel and handbags, fell 1% last year, the first decline since 2009, according to Bain & Co. The slowdown contrasts with 4% growth in the global luxury market, which reached \$1.16 trillion

when including expenditures on pricey cars, travel, restaurants and such.

"In the past, women had loyalty to a particular department store, and they would come in

Please see NEIMAN page A8

## Kong Becomes First Giant Ape To Lose a Fight to a Dead Turtle

\* \* \*

Vietnamese shoot down statue plan

to honor another creature instead

By JAMES HOOKWAY

HANOI—The recent movie "Kong: Skull Island" was filmed among the limestone cliffs and bays of northern Vietnam. It smashed box-office records when it opened here in March.

Not surprisingly, the local tourism authority thought it would be a fabulous idea to build a towering statue of Kong near the banks of the city's famous Hoan Kiem Lake.

Spoiler alert: It ain't happening.

The statue plan provoked a strong public backlash—but not for the reasons one might imagine. The locals weren't concerned that a giant ape towering over the city might

be an eyesore. Their main objection was putting the statue near the lake whose most famous resident was a beloved and recently departed giant soft-shelled turtle named Cu Rua, or Great Grandfather Turtle.

"How could they even think of doing such a thing?" said local biologist Ha Dinh Duc, 78 years old. If there is going to be a statue, Mr. Duc said, it had better be of Cu Rua, which he and other Vietnamese regard as the embodiment of a mythical turtle that kept China's armies at bay for over 500 years, and which floated up dead in the lake last year.

"We need to erect a statue

Please see KONG page A8



Kong

## WORLD NEWS

# Trump Finds China's North Korean Blind Spot



CAPITAL JOURNAL  
GERALD F. SEIB

vocative military parade of the missiles it is developing, and just hours after they staged a failed test of one such missile, the Chinese foreign ministry reiterated China's opposition to putting an American-built missile-defense system in South Korea.

That is disappointing, though perhaps not surprising. The Chinese position on this issue does, however, show that there remains a distance between the way the U.S. and China view the North Korean threat, which risks hindering the exertion of meaningful international pressure on Pyongyang.

The missile-defense system in question is the Terminal High Altitude Area Defense, or Thaad. It's a ground-based system designed to shoot down short-to medium-range ballistic missiles as they approach their targets.

In the middle of last year—that is to say, when Barack Obama was still president and well before the latest North Korean provocations—the U.S. and South Korea agreed to deploy Thaad as a deterrent against North Korea. The Pentagon said Thaad would be operated by American forces stationed in South Korea as a "defensive measure."

On Monday, Vice President Mike Pence, on a visit to South Korea, reiterated American plans to keep moving toward deployment, and was echoed in that sentiment



President Donald Trump and Chinese President Xi Jinping at Mar-a-Lago in Florida this month.

ALEX BRANDON/ASSOCIATED PRESS  
case of the Chinese being long-term wise and short-term foolish. The prospect of a working North Korean missile armed with nuclear warheads, and aimed at its neighbors as well as the U.S., is a far more real and immediate danger to the stability of China's neighborhood than some all-out military confrontation with the U.S.

The North Korean nuclear genie already is out of the bottle, in the sense that it has working nuclear explosive devices. The trick now is to contain that threat and, if possible, roll back the steps the North Koreans are taking, in a considerable hurry, to complete the transition from mere nuclear devices to nuclear weapons.

That is going to require convincing the North Koreans that the price they will pay for continuing down this path outweighs any strategic advantage they will gain, which is where escalating economic pressure from China is key. Eventually the strategy also probably will require a diplomatic component to give the North Koreans a face-saving escape if they want to back away.

But a complete strategy also will require steps to convince the North Koreans that their new military toys won't have the power that Supreme Leader Kim Jong Un hopes they do. That's where Thaad comes in—and where China is still standing in the way.

by South Korea's acting president, Hwang Kyo-ahn. Though South Korea's government is in flux thanks to a corruption crisis, Mr. Hwang sounded resolute on the Thaad question, calling for "early deployment and operation" and saying he is looking for American help in bringing to an end the "unfair actions" from China in response to it.

The "unfair actions" remark referred to the fact that the Chinese have begun economic reprisals against South Korea to punish it for its decision to accept the

Thaad deployment on its soil. If it sounds illogical for China to punish South Korea for defending itself against what even the Chinese recognize as a real and immediate threat in the region—well, it is.

Mostly illogical, anyway. From the Chinese point of view, Thaad represents not just a defense system for South Korea but an intrusion of American technology that someday could be used to repress China militarily in

some future superpower showdown with the U.S.

The key to Thaad is its sophisticated radar system for spotting and tracking missiles once launched. That capability, the Chinese fear, could be useful to American troops in any military confrontation with China by helping the U.S. follow and neutralize Beijing's missiles.

Given that Chinese strategic thinkers consider issues not just months or years but decades down the road, their concern isn't a surprise. Still, this seems to be a

## Blue Skies and Red Clay in Monaco



TIME TO HIT THE DIRT: On a gorgeous day at the Monte Carlo Masters men's tournament, Alexander Zverev, bottom, beat Andreas Seppi in the round of 64. Tennis's clay-court season is revving up as players prepare for the French Open, which begins May 28.

## GROWTH

Continued from Page One  
vestment grew nearly twice as fast, and state infrastructure spending increased over three times the rate. Manufacturing contributed most of the growth momentum in the quarter as services growth decelerated; and while retail sales grew by 10% in the quarter, this was slower than the 10.4% pace for all of 2016.

A plan announced this month for a new megacity a two-hour drive south of Beijing also is expected to benefit state-owned companies, including producers of steel, glass and cement. Small businesses in the area worry they will be forced to move to make way for state firms flooding in.

"The economy looks serene on the surface," said Eswar Prasad, former China head of the International Monetary Fund. But its reliance on old-growth levers at the expense of private drivers masks "rising system stresses and macroeconomic vulnerabilities," he added.

The strong start should

see Beijing comfortably reach its target of "about 6.5%" growth this year, though economists widely expect a slowdown in the second half of the year.

Casting a shadow over the economy after years of fiscal and monetary stimulus is China's rapidly rising debt load. Total debt is now at an estimated 277% of the economy, up from 125% at the end of 2008. Credit continues to expand significantly faster than economic growth despite Beijing's bid to address growing economic risk.

While new bank lending slowed in March from February, overall lending rose, showing that appetite for credit is strong and that many companies and property buyers are finding other ways to borrow.

China's property industry now accounts for between 25% and 30% of China's gross domestic product, including related industries such as construction, according to DBS, a Singapore-based bank.

Developers are starting to build again after clearing out some unsold inventory with the help of a stimulus-fueled property boom that started last year. Strong property

sales led developers to replenish land holdings in major cities. But the outlook also improved in smaller cities, many of which have long been ringed by blocks of empty apartments.

Shimao Property, a medium-size developer that specifically focused on clearing out its inventory last year, said it expected to build out projects in major cities next

Changsha.

"The authorities have trouble taming credit," said ANZ Research in a report. "The question we need to ask is whether this investment-led model is sustainable."

Even as credit expands, a preference among state-owned banks to lend to property developers and state companies crowds out private companies, economists say.

"We face real problems getting bank loans, and private loans are risky and expensive," said Liu Zheng, marketing manager with Yangxin Lumijiang Classical Furnishing Co. based in the eastern town of Yangxin. "So we've had little choice but to cut spending and pare investments."

National Bureau of Statistics spokesman Mao Shengyong told reporters on Monday that China's economy is stable and balanced, helped by improving private investment and strong contributions from consumption and services. "Our bottom line for GDP growth this year is 6.5%, but of course we should aim to do better," he added.

—Dominique Fong and Liyan Qi contributed to this article.

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# WORLD NEWS

## South Korea's Park Indicted for Bribery

Impeached president faces 18 charges; Lotte Group chairman is accused in scandal

BY EUN-YOUNG JEONG  
AND JONATHAN CHENG

SEOUL—South Korean prosecutors indicted former President Park Geun-hye on 18 charges including bribery and coercion, taking aim at the central figure in a corruption scandal that has led to more than 30 indictments of high-profile government and business figures, including Samsung Group's de facto leader, Lee Jae-yong.

On Monday, South Korean prosecutors also indicted Shin Dong-bin, chairman of **Lotte Group**, South Korea's fifth-largest *chaebol* (conglomerate), on bribery charges. Mr. Shin is the second conglomerate head to be indicted in the scandal after Samsung's Mr. Lee, whose trial began this month. Lotte said it was "disappointed" by the indictment of Mr. Shin, saying the contributions were part of a corporate social-responsibility effort.

The charges against Ms. Park—centering around abuse of authority, coercion, leaking confidential government infor-

mation, bribery and intervening in hiring—land just five weeks after she was removed from office by an 8-0 vote of the Constitutional Court. That vote, which stripped her of immunity from criminal prosecution, followed the National Assembly's overwhelming vote in December to impeach her.

For Ms. Park, who has been behind bars for more than two weeks awaiting an indictment, the formal charges set the stage for a trial that expected to begin in the coming weeks. Ms. Park has previously denied wrongdoing. A snap election for a new president is set for May 9.

Prosecutors have said Ms. Park was the key player in a scandal that erupted after a local broadcaster reported in October that the president had shared classified government documents with a close friend, Choi Soon-sil. According to prosecutors, Ms. Choi was given 47 classified documents and used her access to the president to meddle in state affairs and to enrich herself. They have said Ms. Park colluded with Ms. Choi and wrongfully exercised her authority as president to extract 774 billion South Korean won (\$68 million) from 18 conglomerates for donations to two entities linked to Ms. Choi. Ms. Choi has denied wrongdoing.



Posters in Seoul that read 'arrest' show ex-President Park, her aides and businessmen close to her.

Prosecutors said Monday that new evidence shows the two solicited an additional 7 billion won from Mr. Shin, the Lotte chairman, and 8.9 billion won from Chey Tae-won, chairman of South Korea's No. 3 chaebol, SK Group. The two conglomerates were also among the original 18.

According to prosecutors, Messrs. Shin and Chey, whose companies had been stripped of lucrative licenses to operate duty-free shops, had asked Ms. Park to grant new ones. In November, prosecutors raided the offices of SK and Lotte in con-

nnection with the scandal.

Lotte said the 7 billion won was sent back in a month, while SK said it ended up not providing the additional funds. Mr. Chey hasn't been indicted. An SK spokesman declined to comment on the allegations.

It is unclear how long it will be before a verdict. Ms. Park can be detained for up to six months without one. According to Seoul Central District Court, more than a dozen cases tied to the scandal are under way.

In any case, the scandal will cast a shadow over the presi-

dential campaign, which is expected to hinge on whether South Korean voters want to continue Ms. Park's policies, including a hard line on North Korea and a reliance on the chaebols to drive economic growth. Ms. Park also pushed through a controversial deal with Tokyo in late 2015 to resolve historical disputes between the two.

Moon Jae-in, who lost to Ms. Park in the 2012 election, is the leading candidate to replace her. He has called for increased economic cooperation with North Korea, overhauls of

the four biggest family-controlled chaebols—Samsung, Hyundai Motor, SK and LG—and a government expansion that would create 810,000 new government jobs.

Mr. Moon rode to the top of the polls on a wave of public anger—large street demonstrations in central Seoul helped push Ms. Park out of office. But in recent weeks his lead has been eroded by the swift rise of Ahn Cheol-soo, a former political ally. He has struck a chord with voters looking for a centrist alternative to Mr. Moon, a polarizing figure mistrusted by many conservatives.

In an interview earlier this year, Mr. Moon said that he would consider visiting Pyongyang before he visits Washington if that would help resolve the North Korea issue. He later said his remarks were taken out of context. Mr. Moon, who was an aide to Roh Moo-hyun, left-leaning president from 2003 to 2008, also said in a recent book that South Korea should learn to say no to the U.S., a close ally.

Those remarks have stirred skepticism about Mr. Moon, benefiting Mr. Ahn. As Mr. Ahn's fortunes and tensions with North Korea have risen, Mr. Moon has spoken out more forcefully against North Korea's behavior.

## China to Build City as Cure for Beijing Overcrowding

BY DOMINIQUE FONG

XIONGAN NEW AREA, China—When the Chinese government announced plans this month for a new megacity a two-hour drive south of Beijing, gold fever erupted.

Fan Yushou, a 36-year-old businessman from Chongqing, about 1,100 miles away, hopped in his car and drove for 20 hours. Home prices in the area more than doubled after the April 1 announcement. Local media reported one Beijinger arrived with a trunk full of cash to buy apartments.

They all wanted a piece of the Xiongan New Area, billed in state media as an "ecocity" led by innovation and high tech set to rise from a swath of farmland and plastics factories—the epitome of the model of growth China aspires to.

The shot in the arm from building Xiongan—2 trillion yuan (\$290 billion) of public and private investment over the next 15 years, according to a Morgan Stanley estimate—is likely to benefit old-style economic players and sectors.

The construction will require large amounts of steel, glass and cement. More than 30 state-owned firms, includ-



Farmland meets urban sprawl in northern Hebei Province.



ing China Railway Construction and mining firm Metallurgical Corp. of China, have pledged involvement. China Shipbuilding Industry Corp. said it would move its headquarters to the Xiongan area.

Not joining the hype: Private businesses in the area, which fear they will have to give way to the influx of state firms, usually the first to benefit in major Beijing undertakings, and often at the expense of entrepreneurs. "We worry about our future since Day One after the plan was announced," said Wang Junsheng, the 47-year-old

owner of a plastics company in the area. "If the government decides...to move us out, that will definitely be the end of [the area's] businesses."

State media laud Xiongan as a new version of the southern city of Shenzhen or Shanghai's Pudong district, which both emerged in times of economic transition. Shenzhen evolved from a sleepy village to first an export factory hive and more recently a tech megalopolis packed with talent and private companies. Pudong is now a hub of finance and trade.

Other projects to build cities

from scratch have misfired. The \$91 billion project of Caofeidian, a deep-water port built on reclaimed land, is mired in debt, full of abandoned buildings. Its steel mill is unprofitable. Government investment projects in Binhai New Area in Tianjin have since stalled. Both Binhai and Caofeidian are near Xiongan.

Xiongan's creation comes at a time when the congested capital is looking to relocate businesses and as many as two million people and provides a convenient cure for Beijing's overcrowding. It also offers an economic showcase project as

### Housing Sales Rise Slowed in March

BEIJING—China's home sales growth slowed in March but property investment picked up, despite a government clampdown on real-estate speculation.

In March, housing sales by value were up 18.2% from a year earlier, according to calculations by The Wall Street Journal based on data released Monday by the National Bureau of Statistics.

That compared with a 22.7% gain over the first two months of the year. China combines January and February data to limit distortions from the Lunar New Year holiday.

For the January-March period, housing sales increased 20.2% from a year ago, slowing from the 22.7% gain dur-

ing January-February.

The pace of property investment, including commercial and residential real estate, accelerated in January through March, gaining 9.1% from a year earlier and marking the highest year-on-year increase in two years. That compared with the 8.9% gain recorded for the first two months of the year.

Construction starts also picked up, rising 11.6% in the January-March period to 315.6 million square meters from a year earlier. That was up from the 10.4% increase in January-February.

The real-estate sector makes up 25-30% of China's gross domestic product growth, including construction activity and downstream industries such as furniture sales, DBS Group estimated in a report Monday.

—Dominique Fong

President Xi Jinping is looking to solidify his hold on power at a Communist Party congress at the end of the year.

Xie Junjiu, manager of a local travel agency, hopes that if Xiongan becomes a sort of ex-

tension of Beijing, her 18-year-old son might have a better chance at getting into university in Beijing, which gives priority to city residents.

—Liyan Qi contributed to this article.

ICONIC  
**THE NAVITIMER**  
SINCE 1952

BREITLING  
1884

## WORLD NEWS

# Opposition To Challenge Turkey Vote

ANKARA, Turkey—International observers said a closely contested vote on Turkey's presidential powers contravened Turkish law, while politi-

By Margaret Coker,  
Ned Levin  
and Yeliz Candemir

cal rivals of President Recep Tayyip Erdogan were preparing to file formal objections to the results.

Mr. Erdogan and his supporters described the preliminary totals from Sunday's referendum, giving him a narrow victory, as the will of the people. Should the results stand, they would centralize governing powers in his presidential office and radically alter Turkey's democracy.

According to unofficial results, Turkey approved constitutional amendments with a tight "yes" vote garnering 51.2% of the vote, and 48.8% opposed, with 100% of the ballots counted, the state-run Anadolu news agency reported Sunday. Mr. Erdogan's political rivals, who backed the "no" campaign immediately demanded a recount.

International election observers issued a report on Monday in Ankara saying that while the vote was "generally

well administered," the referendum itself, including the election campaign and the ballot counting, fell short of European standards and Turkish laws.

An unusual decision by the Turkish election board to count all ballots despite numerous complaints from the opposition of voting irregularities contradicted Turkish law, according to findings from a joint election observation mission from the Organization for Security and Cooperation in Europe and the Parliamentary Assembly for the Council of Europe.

"While the technical aspects of the referendum were well administered and referendum day proceeded in an orderly manner, late changes in counting procedures undermined important safeguards and was in contradiction with the law," the head of the OSCE election observer mission, Tana de Zulueta, said.

The president was scheduled to hold a cabinet meeting on Monday and other ministers appeared to be keeping to their normal working schedules amid growing disquiet among opposition camps about the preliminary electoral tallies.

Turkish markets rallied on



President Erdogan, with his wife, Emine, told supporters in Istanbul late Sunday his win was an expression of the national will.

opening as investors cheered the victory with the main stock BIST-100 index up 0.6%. The lira initially strengthened by almost 3% to 3.6371 against the dollar, its strongest level in two weeks, before trimming back its gains to stay slightly higher.

Members of the European Parliament who were in Turkey to monitor the election reported several allegations of violations and irregularities in southeastern provinces and supported the Turkish opposition's contention that the vote was unfair.

Speaking to the nation late Sunday, Mr. Erdogan

called his win an expression of the national will, after a bitterly fought race that essentially became a referendum on his political legacy. His supporters turned out in droves, spurred by the allure of his policies that blend social conservatism and Islam with electoral democracy, as well as a populist dedication to modernizing health care and social services.

Opponents of the changes had argued otherwise. They believe the constitutional changes would deliver a serious blow to a democratic system already under intense strain and set Turkey on a

path to authoritarianism.

They complained that the campaign was unfair in part because of the restrictions caused by the continuing state of emergency called after last summer's failed coup. Since then, authorities have arrested more than 40,000 people, including dozens of opposition lawmakers and local elected officials, dismissed more than 120,000 civil servants and other government employees and closed roughly 140 media outlets.

The sizable number of dissenters in Sunday's contest signaled the depth of unease with the government's post-

coup crackdown and revealed the deep polarization in a nation of 80 million. Many secularists, liberals and ethnic minority Kurds opposed constitutional changes that they fear will enshrine a majoritarian practice of democracy that marginalizes millions of Turks from political life.

A majority of voters in Turkey's major urban centers rejected the changes, including Istanbul, Mr. Erdogan's hometown and Turkey's financial and cultural center, and Ankara, the capital. Mr. Erdogan or his party had carried Istanbul in every election since coming to power in 2002.

## EU Foes on EU Contracts

Presidential candidate Marine Le Pen of the National Front had her top aides on EU contracts.

Catherine Griset  
Ms. Le Pen's chief of staff  
and former sister in law

Thierry Légier  
Bodyguard of Jean-Marie Le Pen  
and his daughter Marine

€294,592\*

€53,554

Received between December 2010  
and February 2016

Given two three-month contracts  
in 2009 and 2011

Photos: Associated Press; Agence France-Presse/Getty Images; Reuters

€1 = \$1.06 \*Including insurance, pension costs Source: European Parliament, OLAF report

## EU Probes Use of Its Funds

Three years ago, French presidential candidate Marine Le Pen was warned that her National Front party would be at

By Noemie Bissere in  
Paris and Laurence  
Norman in Brussels

financial risk unless its lawmakers could squeeze more funding from the European Parliament.

"In the years to come...we will get by only if we accumulate savings thanks to the European Parliament and get additional transfers," party treasurer Wallerand de Saint-Just wrote in an email in 2014.

The email is part of information gathered by European Union and French authorities that is said to reveal the unwitting role Parliament may have played in funding the rise of politicians who aim to dismantle the 28-country alliance it serves. Ms. Le Pen is one of the politicians. She is projected to advance in the first round of voting on April 23 but fall short of victory in the May 7 runoff.

In the past decade, Parliament has provided a platform to the National Front, the UK Independence Party and other anti-EU groups that have struggled to win representation at home. By winning seats in Parliament, these parties

gain access to EU money that is in part earmarked for parliamentary assistants but, EU and French investigators suspect, is redirected to domestic political activities.

According to a confidential 2016 report prepared by OLAF, the EU antifraud office, and reviewed by The Wall Street Journal, the National Front has used European Parliament funding to cut hefty checks to senior party officials and confidants of Ms. Le Pen.

In its report, OLAF said that in at least two cases, the actions of Ms. Le Pen and some of her aides could, under French law, amount to fraud.

OLAF referred its findings to French prosecutors who, a judicial official said Friday, recently requested the European Parliament lift Ms. Le Pen's immunity. Parliament is unlikely to do so before voting begins because it typically takes months to reach a decision in such cases.

Marcel Ceccaldi, a lawyer for Ms. Le Pen, called the OLAF report a "tissue of lies." Ms. Le Pen didn't respond to a request for comment. A second probe of the National Front's payments to assistants is expected to be completed in the coming weeks.

When Ms. Le Pen was chal-

lenged during an April 4 presidential debate about her use of both parliamentary funds and immunity, she struck a defiant tone. "Our assistants work against Europe, and I'm glad," she said.

National Front holds 22 of the 74 seats allotted to France in the European Parliament, but only two of the 577 seats in the French National Assembly. As head of a group of European nationalist parties in the European Parliament, Ms. Le Pen gets a prominent speaking spot during key debates.

That has given her the kind of "legitimacy that her father never had," said Jerome Laville, a French EU lawmaker.

EU lawmakers are permitted to spend more than €20,000 (\$21,000) a month to pay local and parliamentary assistants in addition to their own salaries and expenses.

In recent months, the European Parliament has tightened the rules for funding its members. Parliament has also started docking the salaries of several National Front lawmakers, including Ms. Le Pen and her father, to recoup around €1 million in funds it says were misspent on assistants. The National Front lawmakers deny any misuse and are challenging the decisions in court.

This isn't the kind of victory that Recep Tayyip Erdogan wanted.

Turkey's president, after all, has long enjoyed most of the executive powers that he formally obtained in Sunday's vote on constitutional

changes. His role as head of the country's governing party, with its pliant parliamentary majority, ensured that real authority was already concentrated in the presidential palace.

What Mr. Erdogan

needed, after the July coup attempt against him, was a public affirmation of his leadership—and of his drive to root out dissent. That drive saw hundreds of thousands of opponents, including most leaders of the second-largest opposition party in parliament, hounded from their jobs or thrown behind bars.

With the broadcast media under tight state control and "no" campaigners branded by government officials as traitors or terrorists, Mr. Erdogan's aides just a few weeks ago confidently predicted that "yes" would carry the referendum by 60% or more.

Instead, despite all the intimidation and the widespread reports of fraud during Sunday's vote, the preliminary results, as released by Anadolu state news agency, showed "yes" versus 48.8%.

That didn't deter Mr. Erd-



MIDDLE EAST CROSSROADS  
YAROSLAV TROFIMOV

gan from issuing congratulations on the victory. "The entire country has triumphed," he said, calling for an end to "unnecessary discussions."

In a speech to a crowd of supporters gathered under the rain in front of the ruling party's headquarters, Prime Minister Binali Yildirim described the vote as providing a popular mandate for Mr. Erdogan. "It's a turning point in the history of our democracy," he said. "Against the traitors and dividers we stood united as a nation."

Yet, instead of cementing Mr. Erdogan's authority, such a thin-and-contested margin may end up threatening his ability to govern unchallenged in the months to come.

"Erdogan may discover that this is a Pyrrhic victory," said Henri Barkey, director of the Middle East program at the Woodrow Wilson Center in Washington. "He may have won now, but he may find that in the medium term opposition to him at home and abroad may harden."

Turkey's opposition politicians have already claimed that massive fraud has occurred, particularly in the ruling party's strongholds in rural Anatolia and in the war-torn Kurdish areas of southeast Turkey. These complaints are likely to further delegitimize the result in the eyes of many Turks opposed to Mr. Erdogan.

"It's the first election in which people have serious doubts about the legitimacy of the process," said Asli Aydintasbas, senior fellow at the European Council on Foreign Relations. "This means nothing gets solved, and this remains a deeply polarized and divided country. That's a very dangerous place to be in."

With opposition parties formally challenging a signifi-

cant proportion of the ballots, fraud claims have the potential to dominate the aftermath of the vote. With Mr. Erdogan in firm control of security amid the continuing state of emergency, it is unlikely—but not impossible—that such a belief that the referendum was stolen could also translate into a new wave of street protests.

One of the reasons why the Turkish government expected a much more solid victory is because Mr. Erdogan's Justice and Development Party, or AKP, secured the backing of the leadership of the nationalist MHP for his constitutional changes. Together, the two parties gained more than 61% of the vote in the latest parliamentary elections, in November 2015—significantly more than "yes" scored on Sunday.

"It's a terrible result for him," said Timur Kurhan, a professor at Duke University. "What this indicates is that there are considerable shares of the nationalist and AKP votes that don't want Erdogan to have dictatorial powers."

ominously for Mr. Erdogan, both Istanbul, his hometown and the city where he launched his political career as a popular mayor, and capital Ankara, home to Turkey's bureaucracy, sided with "no." So did several other major cities, such as Izmir, Adana and Antalya.

"It is significant that Turkey's dynamic economic centers have rejected the centralized presidential system," said Aykan Erdogan, a former Turkish opposition lawmaker and a fellow at the Foundation for Defense of Democracies, a Washington think tank. "The message is clear: Erdogan's one-man rule could be politically viable in the short run, but it may not be sustainable economically."

## WORLD WATCH

### SRI LANKA

#### Trash Heap Collapse Kills Dozens in Capital

Rescuers dug through heaps of mud and trash that collapsed onto homes near a garbage dump outside Sri Lanka's capital, killing at least 29 people and possibly burying dozens more.

Hundreds of people had been

living in the working-class neighborhood on the fringe of the towering dump in Meetotamulla, a town near Colombo, when the huge mound collapsed Friday night during a celebration of the local new year, damaging at least 150 homes.

By Monday morning, authorities had pulled 29 bodies from the debris, according to lawyer Nuwan Bopage, who has worked with

residents to protest the dump. Authorities were unsure how many more people could be trapped, but about 30 were reported missing, the lawyer said.

The prime minister vowed over the weekend to shut down the dump, which has absorbed much of Colombo's garbage over several years amid heavy construction and renovations in the capital.

—Associated Press

### ISRAEL

#### Palestinians Inmates Begin Hunger Strike

Hundreds of Palestinians in Israeli prisons began a hunger strike on Monday to demand better conditions, in a protest led by detainees considered a candidate to become a future Palestinian leader.

More than 1,500 of about 6,500 Palestinians held by Israel joined the open-ended protest, activists said, the largest such strike in five years. Their demands included more contact with relatives and an end to Israel's practice of detentions without trial.

The hunger strike was led by Marwan Barghouti, a prominent figure in Palestinian President Mahmoud Abbas's Fatah move-

ment. Over the years, successive polls have indicated Mr. Barghouti is the most popular choice among Palestinians to succeed the 82-year-old Mr. Abbas who has not groomed a political heir.

Mr. Barghouti was arrested in 2002 for his role in a violent Palestinian uprising against Israeli occupation and is serving multiple life terms.

—Associated Press



# TURKISH AIRLINES

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Our Flying Chefs prepare your special and delicious meals  
just the way you like it, right on board. Enjoy your meal.

## U.S. NEWS

# House Race in Georgia Tests Democrats

Effort tries to make Trump focus in contest for Atlanta-area seat held by GOP for decades

By NATALIE ANDREWS

The special election Tuesday for a Georgia House seat will test whether newly energized Democrats can wrest from the Republicans a seat the GOP has held since Jimmy Carter was in the White House.

Democrats have raised unusually high sums in the race for Georgia's Sixth District, which former Rep. Tom Price vacated after President Donald Trump nominated him to be secretary of the Department of Health and Human Services. They aim to make the election a referendum on the president's first few months in office, while Republicans hope to force Tuesday's election to a runoff so its voters can unite around a single GOP candidate. Republicans have held the seat since Newt Gingrich won it in 1978.

Though polling has been sparse, heading into the race, Democrat Jon Ossoff, a documentary filmmaker and former congressional staffer, appears to have a commanding lead. "We don't have to wait until 2018—or 2020—to fight back against Donald Trump," he says on his website, asking visitors for donations. And people have given—the campaign raised \$8.3 million in the first quarter of 2017.

Mr. Ossoff is part of a field of 18 candidates, including 11 Republicans, in the election. The top two finishers in Tuesday's race, regardless of party,



Democrat Jon Ossoff is among the candidates vying to fill the House seat Tom Price vacated when he joined President Donald Trump's administration as secretary of the Department of Health and Human Services.

will face one another in a June 20 runoff unless the top candidate wins more than 50% of the vote.

Leading the Republicans in a poll released Friday are Karen Handel, a former Georgia secretary of state, and former Republican state Sen. Judson Hill.

A poll of likely primary voters published Friday by Atlanta-based political firm Opinion Savvy puts the Democrat at 41.5%, followed by Ms. Handel at 21.2% and Mr. Hill at

11.3%.

A Republican aide involved in the race said he feared recent polls underestimated Democratic support because they aren't counting low-propensity voters who he expected would turn out for the competitive election and skew Democrat.

If the election proceeds to a runoff, the race resets. GOP voters would likely coalesce around the sole remaining candidate facing Mr. Ossoff. The National Republican Congress-

sional Committee, which has focused on engaging Republican voters without backing a single candidate, would jump in to support the Republican.

Democrats need to pick up 24 seats in the 2018 midterms to win the House majority, and the district in suburban Atlanta is widely viewed as their best chance to win a seat in the series of special elections to replace House members who joined the Trump administration.

Republicans are favored in

contests next month in Montana and South Carolina. A Republican won a Kansas special election last week.

On Sunday night, Mr. Trump posted on Twitter: "The recent Kansas election (Congress) was a really big media event, until the Republicans won. Now they play the same game with Georgia-BAD!"

Democrats hope the evolving demographics in the Georgia district favor Mr. Ossoff, especially as he isn't facing a

long-term incumbent well-known to voters.

Mr. Trump barely beat Democrat Hillary Clinton in the district in the presidential election, though Mr. Price won re-election in November with 62% of the vote.

A victory on Tuesday would buoy Democrats and give them hope ahead of the 2018 vote. But Republicans note 97% of Mr. Ossoff's first-quarter fundraising haul came from supporters outside the state, which they say is a sign that the energy may not be in his own district.

"You could just close your eyes and rip a page out of the Yellow Pages and pick a name and let them run unopposed and give them \$10 million and they'd win the primary on Tuesday," said Corry Bliss, executive director of the Congressional Leadership Fund, the House GOP leadership's super PAC fundraising committee. The group has spent \$3 million attacking Mr. Ossoff's record and has 90 staff members knocking on doors in the district.

The special election is also a test of how Mr. Trump's agenda is being received in districts with a high percentage of voters holding bachelor's degrees.

The district is one of the best-educated congressional districts in the country, making it an outlier for the Republican Party. In 2016, Mrs. Clinton won the top-10 most educated districts—with the exception of Georgia's Sixth District. To press that advantage, the Democratic Congressional Campaign Committee, House Democrats' campaign arm, is aiming advertising at college campuses.

## Kushner in Talks To Sell Tech Stake

By PETER GRANT

Jared Kushner, the son-in-law of President Donald Trump who has become a senior adviser in the White House, is in advanced talks to sell his stake in a real-estate-technology company to a venture-capital firm as part of his efforts to divest himself of many business ties, according to people familiar with the matter.

Mr. Kushner is close to selling his stake in **WiredScore** to a group including Los Angeles-based **Fifth Wall Ventures**, according to the people, as he moves to separate himself from conflicts of interest. The price and other group members couldn't be determined, and the talks could still end without a deal.

The divestiture is one of many Mr. Kushner is pursuing. Critics of the Trump administration contend that he, like Mr. Trump, still isn't doing enough and that conflicts still exist.

Arie Barendrecht, co-founder and chief executive of **WiredScore**, and a representative of **Kushner Cos.** both declined to comment.

Mr. Kushner earlier this year disclosed that his stake in **WiredScore** was valued at \$5 million to \$25 million.

Before the election, Mr. Kushner was best known for his real-estate investments through his family-controlled company. But he and other family members also invested in technology firms like **WiredScore**.

Launched in 2013, **WiredScore** evaluates and rates office buildings for the speed and reliability of their internet connections. The firm got early support from then-Mayor Michael Bloomberg as part of his efforts to bolster New York as a technology hub.

Earlier this year, Mr. Kushner said in a federal disclosure form that he was a managing member of **WiredScore**'s owner, **Broadband Proliferation Partners LLC**. The form, which covered a bit more than one year, listed income from Broadband as \$4.5 million and stated that Mr. Kushner was "in the divestment process" with Broadband.

Led by Brendan Wallace and Brad Greive, **Fifth Wall** targets technology firms that focus on services for real-estate owners, investors and operators, ac-



Jared Kushner, a senior adviser in the White House

## Trump Set to Pick Fed Regulator

By NICK TIMIRASOS AND PETER NICHOLAS

WASHINGTON—A former top Treasury Department official in the George W. Bush administration is expected to be President Donald Trump's pick for a top financial-regulatory post at the Federal Reserve, according to a senior official familiar with the matter.

Randal Quarles, who now runs the **Cynosure Group**, a Salt Lake City-based investment firm he co-founded, is expected to be selected as the Fed's vice chairman for bank supervision. The position requires Senate confirmation.

Mr. Quarles couldn't be reached to comment. A White House spokeswoman declined to comment.

The position was created by the 2010 Dodd-Frank financial law to oversee the largest U.S. banks. Former President Barack Obama never nominated anyone to the job. Former Fed Governor Daniel Tarullo, who stepped down in April, served as the de facto vice chairman for supervision. The position is one of three vacancies on the Fed board.

Filling the position will give the Trump administration a significant opportunity to



Randal Quarles is expected to join the Fed as a banking regulator.

shape its financial-regulation agenda.

Mr. Quarles said in a 2015 interview with Bloomberg TV that repealing the Dodd-Frank law altogether is "politically very difficult" but that significant changes to the law were worth considering. In some respects, he said, the regulatory overhaul was "not ambitious enough," while in other ways "it was overly ambitious."

Mr. Quarles is seen as less ideological than other candidates the Trump administration had considered for the job. That suggests the White House could take a more con-

sidered approach to overhauling the regulatory architecture put in place by the Obama administration and Mr. Tarullo.

In the same interview, Mr. Quarles said he supported efforts to create more predictable monetary policy by having the Fed follow a simple rule, or formula, to set interest rates that uses measures of inflation and economic slack. At the time, he said the Fed's approach to monetary policy was increasing uncertainty in the markets.

An important element of Republican thinking about monetary policy currently is

that it ought to be more rules based," he said in the 2015 interview.

Officials in the Trump administration have said filling the vice chairman's job is a priority and broadened their search for the job in recent weeks. A leading contender for the position, GE Capital executive David Nason, took himself out of the running last month.

Mr. Quarles served at the Treasury from 2001 to 2006, including as undersecretary for domestic finance in his final two years at the department. He was a partner of the Carlyle Group, one of the world's largest private-equity firms. He also served at the Treasury in the administration of former President George H.W. Bush.

At least at the outset, Mr. Trump's nominee probably won't be able to exercise significant influence over the largest U.S. financial firms in the same fashion as Mr. Tarullo. Major regulatory decisions will have to be approved by Fed Chairwoman Janet Yellen, a defender of the Fed's new regulatory regime. She has said she intends to serve out her term through February 2018, and Mr. Trump hasn't ruled out reappointing her.

## Facebook Post Spurs Search

By KRIS MAHER

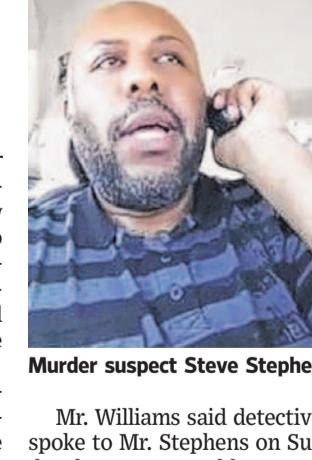
Cleveland police asked residents in Pennsylvania, New York, Indiana and Michigan to be on alert Monday for a suspect who shot and killed an elderly man over the weekend before posting a video of the attack on Facebook.

Federal, state and local law-enforcement agencies were coordinating a search for Steve Stephens, 37 years old, who allegedly killed Robert Godwin Sr. in Cleveland on Sunday.

Police said Mr. Stephens posted a video of the homicide on Facebook. The Cleveland Division of Police said a murder warrant had been issued for him. Police also said they had no motive for the killing.

"We're asking the public's help in finding this guy," said Cleveland Police Chief Calvin Williams.

Jean Eaglesham and Keiko Morris contributed to this article.



Murder suspect Steve Stephens in stills from a video he broadcast on Facebook Live on Sunday.

Mr. Williams said detectives spoke to Mr. Stephens on Sunday but were unable to persuade him to turn himself in. He said Mr. Stephens didn't have a criminal record.

In the video, Mr. Stephens gets out of his car and approaches Mr. Godwin, 74, who is walking on the sidewalk and carrying a plastic shopping bag. Mr. Stephens says the name of a woman and then says to Mr. Godwin, "She's the reason why all this about to happen to you."

In the video, Mr. Stephens asks Mr. Godwin how old he is before appearing to point a gun at him. Mr. Godwin raises the shopping bag in front of his face as he tries to defend himself.

Mr. Stephens made multiple posts on Sunday, including broadcasting on Facebook Live. In one video clip, he says he has had a lot of anger and frustration. "I'm at the point where I snapped," he said. Mr. Stephens has claimed he killed other people, but police hadn't verified those claims.

The video of the killing was

on Facebook for about three hours before it was removed, according to the Associated Press. Mr. Stephens's Facebook page also eventually was taken down. Facebook said Mr. Stephens did post live video on the site on Sunday but that he didn't post live video of the shooting, according to the AP.

Police had said Mr. Stephens broadcast it on Facebook Live. "This is a horrific crime, and we do not allow this kind of content on Facebook," the company said.

Launched in 2013, **WiredScore** evaluates and rates office buildings for the speed and reliability of their internet connections. The firm got early support from then-Mayor Michael Bloomberg as part of his efforts to bolster New York as a technology hub.

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## U.S. NEWS

# Builders See Big Appeal in Tiny Units

By LAURA KUSISTO

Since Hannah Toth set out a few months ago to move from her parents' home in suburban Pittsburgh she has seen plenty of airy apartments of up to 900 square feet.

What caught her eye is a 360-square-foot studio roughly the size of her childhood bedroom for just over \$1,500 a month.

When Ms. Toth, 26 years old, tells family and friends about her decision, they ask, "You're looking to live somewhere that's how big, exactly?"

Ms. Toth said she liked that the studio comes fully furnished, and that its smaller energy footprint is more environmentally sustainable.

A Pittsburgh developer is betting that more 20-somethings will pay over \$1,500 a month for the tiny studios in its new building, called Ollie at Baumhaus, even though the space is so tight the beds double as couches.

It is a big risk in a city where the average apartment rents for a modest \$979 a month, compared with nearly \$3,400 in the New

York metropolitan area and more than \$2,800 in San Francisco, according to data provider Reis Inc.

A trend that started in pricey coastal cities as a response to rising rents is spreading to smaller cities that often have an abundance of relatively inexpensive housing options.

In Milwaukee, Cleveland, Detroit, and Kansas City, Mo., developers are betting on demand from young people to live in tiny quarters even when cost isn't the primary consideration.

Micro apartments generally come fully furnished with amenities such as wireless internet and in some cases maid service, at a price similar to those of larger traditional apartments. The compact units encourage people to use the common spaces more, creating a greater sense of community, developers say.

The developers are gambling that such amenities will help set the units apart in a crowded marketplace, where a rush of new building is coming online despite ample sup-

ply of affordable older housing stock.

"I think it will be an adjustment, for sure," said Dan Mullen, president of Bedrock, the development arm of mortgage magnate Dan Gilbert's family of companies. But tall ceilings and windows at his company's units help make the lofts feel larger, he added. "When you get in one of these units, it feels very spacious."

Bedrock's new micro-unit building in Detroit is set to open this summer, with 218 furnished units averaging 260 square feet each.

Mr. Mullen points to perks such as a flat-screen TV in the units and a rooftop terrace where tenants can watch movies. The apartments will rent for under \$1,000 a month—roughly in line with larger studios in other new buildings, which typically don't include utilities and internet service.

The Pittsburgh building, which has 127 units and was developed by local firm Vitmore, will feature not just tiny apartments but also three-bedroom units designed



Bedrock's Detroit units will average 260 square feet, but it says tall ceilings will help them feel larger.

to be shared by roommates.

Christopher Bledsoe, co-founder and chief executive of Ollie, a real-estate startup that is managing the project, said the building, set to open in June, will feature a community garden where renters can grow their own fruit and vegetables, an on-site manager who is a fitness instructor and bartender, and cooking classes from local chefs.

The buzz around the mini units could help distinguish the building. Nearly 2,300 new apartment units were completed in Pittsburgh in

2016 and an additional roughly 1,800 are expected this year, according to MPF Research, a division of RealPage. That compares with the historical average dating back to 2000 of 1,000 units a year.

In Kansas City, a developer will install queen-sized beds in case would-be residents want to get even cozier and share their 300-square-foot flats. The units will rent for \$700 to \$800 a month—about in line with the average rent for apartments of all sizes, according to Reis.

"Young people today seem

to be able to group together," said John Hoffman, a partner at UC-B Properties, which is developing the 50-unit building that is set to break ground in the coming months.

Mr. Hoffman said he modeled the units' design on a cruise-ship cabin. The sink doubles for both the kitchen and the bathroom, the microwave doubles as an oven and the fridge can handle "a six-pack of long-neck beer and a 12-inch pizza," he said, which is all he figures young people these days need.

## Arkansas Seeks to Move Ahead With Executions

By JACOB GERSHMAN

Arkansas officials are contesting legal rulings that blocked the state from carrying out its plan to put to death at least half a dozen inmates within a span of days.

The Arkansas attorney general's office is asking a federal appeals court in St. Louis to vacate a federal judge's Saturday order that put a series of back-to-back executions on hold. U.S. District Judge Kristine Baker granted eight condemned inmates a preliminary injunction over concern about the state's lethal-injection protocol.

At issue is the drug, midazolam, that will be used in the executions. It is supposed to anesthetize the inmate from the pain of two other drugs in the lethal-injection cocktail. Lawyers for inmates have argued that midazolam is too unreliable as a sedative, creating an "intolerable risk" of pain that violates the Eighth Amendment's ban on cruel and unusual punishment.

The legal showdown came in the final days before the first of the executions is scheduled to take place on Monday. In February, Republican Gov. Asa Hutchinson scheduled eight ex-



BRIAN CHILSON/ASSOCIATED PRESS

Arkansas ACLU Executive Director Rita Sklar and others Friday with petitions to halt the executions.

ecutions from April 17 to April 27, three days before the expiration date of the state's lethal injection drugs.

The compressed timetable has drawn fire from many quarters, including from former corrections officials.

Judge Baker wrote that the risk of pain is "exacerbated

when considering the fact that the state has scheduled eight executions over 11 days, despite the fact that the state has not executed an inmate since 2005."

Her 101-page opinion also weighed whether a firing squad, an execution method not permitted in Arkansas, might be a better alternative to lethal in-

jection.

Arkansas Attorney General Leslie Rutledge's office filed an emergency appeal of the injunction to the Eighth U.S. Circuit Court of Appeals, which has yet to rule.

"Appellees brutally murdered young mothers, children, and men who were unfortunate

enough to cross their paths. Their guilt—and the justice of their sentences—is beyond dispute," her office wrote.

Delaying the executions "by even a few days—until after Arkansas' supply of midazolam expires—will make it impossible" for Arkansas to carry out the sentences, the emergency motion stated.

The state told the appeals court that Judge Baker's concerns with midazolam lacked sufficient scientific evidence and relied on a "few anecdotal accounts of executions in other states."

"We're hoping the Eighth Circuit affirms Judge Baker's ruling," said Jeffrey Rosenzweig, an Arkansas attorney who represents three of the inmates.

Originally, the state planned to execute eight men in 11 days. The figure dropped to seven after a federal judge stayed the execution of Jason McGehee because his execution was scheduled too soon after a state parole board had recommended clemency.

The state's Supreme Court also halted the execution of another inmate, convicted murderer Bruce Ward, whose lawyers questioned his sanity.

If the Eighth Circuit reverses the injunction, it alone wouldn't give the state a green light to proceed with the other executions.

The state must also knock down a temporary restraining order imposed by Pulaski County Circuit Judge Wendell Griffen in response to a lawsuit by pharmaceutical company McKesson Medical-Surgical Inc.

In a complaint, McKesson said it was misled by Arkansas when it supplied the state with another lethal-injection drug.

The company has since withdrawn its complaint, but Judge Griffen's order still stands.

The state has asked the Arkansas Supreme Court to reverse it and throw him off the case.

The state's appeal noted that on Friday, the same day Judge Griffen issued his ruling, he participated in anti-death-penalty rallies. At one protest in front of the governor's mansion, he was seen strapped to a cot in a simulation of a condemned prisoner on a gurney.

"Judge Griffen's conduct...makes it crystal clear that he cannot be considered impartial in matters related to the death penalty," the attorney general's office wrote.

## U.S. WATCH

### ECONOMY

#### Home-Builder Gauge Slips but Stays Strong

A gauge of U.S. home-builder confidence declined in April but remained elevated headed into the spring.

The National Association of Home Builders on Monday said its housing-market index fell three points to a seasonally adjusted 68 in April. It was 71 in March, the strongest reading since June 2005.

The index measures builder confidence in the market for new single-family homes.

Figures over 50 mean more builders see conditions as good than bad.

—Ben Leubsdorf

### SUPREME COURT

#### Immigrants' Appeal on Deportation Denied

The Supreme Court on Monday rejected an appeal from detained immigrant mothers and their children who claim they will be persecuted if they are returned to their Latin American homelands.

The justices left in place a lower-court ruling that said the families didn't have a right to contest deportation in federal court.

The 28 mothers and their 33 children were arrested in Texas after crossing the border illegally, and immigration officials rejected their asylum claims. The immigrants came from Honduras, Guatemala and Ecuador.

—Associated Press

## ARCONIC

*Continued from page A1*  
Arconic says the company created more than \$8 billion in stock market value since 2009.

But Elliott and other Arconic shareholders had argued Mr. Kleinfeld's grand plans haven't paid off. Alcoa shares fell 70% from the start of Mr. Kleinfeld's tenure in May 2008 until the Nov. 1 split. The S&P 500 rose more than 80% over the same period.

The hedge fund plans to continue its fight to add four directors to the company's board, according to a person familiar with the matter. Shareholders are set to vote on the request at a May 16 meeting.

Arconic shares were up about 3.7% at \$26.89 at midday Monday.

Mr. Kleinfeld was named CEO of Alcoa Inc. in 2008 following a two-decade career at Siemens AG that ended after a bribery scandal engulfed the German conglomerate.

At the time, Alcoa shares were trading near all-time highs. Within months, the financial crisis sent aluminum prices plunging. Alcoa's stock fell 74% between mid-May and the end of October. Mr. Kleinfeld scrambled to shore up its finances.

Convinced a robust parts business could help the company better endure commodity-price swings, he turned his attention to aluminum parts. Since Alcoa's founders discovered how to extract the metal in 1886, the company pioneered dozens of aluminum products, including beverage cans, truck wheels and airplane components.

Under Mr. Kleinfeld, Alcoa's burgeoning parts business signed lucrative deals to manufacture parts for Boeing's Dreamliner commercial airplane and Ford's best-selling F-150 pickup truck.

Despite growth in the parts business, Alcoa's stock continued to lag the broader postcrisis recovery as surging aluminum output from China and the Middle East swamped the global market. Analysts speculated about an eventual breakup.

Mr. Kleinfeld resisted, referring to the combination of aluminum production and manufacturing as the "Alcoa advantage." In 2014, Alcoa bought Firth Rixson Ltd., a maker of jet engine parts, from private-equity firm Oak Hill Capital Partners for about \$3 billion, including a roughly 2% stake in Alcoa. The following year, it paid \$1.8 billion for titanium parts maker RTI International Metals Inc.

But Alcoa stock was still moving in tandem with commodity-grade aluminum prices, deeply frustrating Mr. Kleinfeld. Mr. Kleinfeld announced the split on Sept. 28, 2015.

At the same time, Elliott was amassing a sizable stake. The \$33 billion New York hedge fund founded by Paul Singer is among Wall Street's most persistent investors, fa-

mous for a successful 15-year crusade to get Argentina to pay up on its defaulted bonds.

The relationship was cordial at first. Elliott supported the breakup but expressed some concerns about the company's financial performance in early meetings. Arconic agreed to add three directors chosen by Elliott to its board.

The hedge fund was particularly focused on the aerospace business, which expanded dramatically with the Firth Rixson deal. Mr. Kleinfeld had said he expected the acquisition to begin yielding gains in 2016. But days before its fourth-quarter earnings release that January, he learned that aerospace customers asked Alcoa to delay shipments. Alcoa opted to express some concerns about the aerospace industry without modifying its guidance for the business, known as engineered products and solutions business, or EPS.

On the Jan. 11 earnings call, analysts asked Mr. Kleinfeld if Alcoa would hit its numbers.

He responded that executives were "laser-beam focused" on what they could control. The stock dropped 9%.

In April, Alcoa slashed its 2016 revenue guidance for the EPS group by \$1 billion, saying it expected the unit to bring in between \$6 billion and \$6.2 billion. The stock again ticked lower.

Three months later, when Alcoa announced its second-quarter results, analysts questioned the revised forecast. Mr. Kleinfeld told them he expected aerospace demand to rise. In October, Alcoa cut the EPS unit's guidance for a second time, forecasting revenue of between \$5.6 billion and \$5.8 billion. The stock dropped 11%.

Arconic separated from Alcoa on Nov. 1. After the split, Alcoa Corp. soared along with aluminum prices. Arconic flatlined. On Jan. 31, moments before Mr. Kleinfeld kicked off Arconic's first earnings call as a stand-alone company, Elliott publicly called for his firing.

—Imani Moise contributed to this article.

## In Their Easter Bonnets



EGG ROLL: Children pushing eggs along during a race at the 139th White House Easter Egg Roll on the South Lawn of the White House in Washington on Monday.

SAUL LOEB/AGENCE FRANCE PRESSE/GETTY IMAGES



LUCAS JACKSON/REUTERS

## IN DEPTH

# NEIMAN

*Continued from Page One*  
with a page torn from the retailer's catalog and say, "I want that look," said Robert Burke, the former fashion director of Bergdorf Goodman who now runs his own consulting firm.

The shift in consumer tastes has put pressure on several storied brands, including Tiffany & Co. and Ralph Lauren Corp., which both recently ousted their chief executives.

"Consumers no longer prefer a one-stop approach to shopping," said Deborah Weinstig of Fung Global Retail & Technology, a think tank. "This coincides with the current sentiment that big is the opposite of cool, making it very difficult for major retailers and brands to maintain a high level of cachet."

Few are feeling the heat as much as Neiman Marcus Group Ltd., which holds nearly \$5 billion in debt that has grown through more than a decade of private-equity ownership. The company, which lost \$406 million on sales of nearly \$5 billion in the year ended in July, recently abandoned plans to go public; credit-rating firms have warned there is a high risk it will default on its obligations.

With their equity practically wiped out, Neiman's owners, Ares Management LP and the Canada Pension Plan Investment Board, are looking for an exit. They recently approached Saks Fifth Avenue parent Hudson's Bay Co., about buying the retailer, according to people familiar with the situation. The continuing talks, first reported by The Wall Street Journal, are aimed at combining Neiman with its chief rival to cut costs and boost clout with suppliers.

The company is "well-positioned to deal with both the secular and cyclical changes taking place in the luxury market," said Neiman board member and Ares co-founder David Kaplan. "The brand remains a preferred destination for customers who value the expertise of the store associates and a differentiated product offering as well as for the design community."

### Price powerhouse

Once upon a time, all Neiman needed to do to lift profits was raise prices. That model has since fallen out of fashion.

Neiman Marcus opened its first store 110 years ago in Dallas, catering to those who made their wealth in Texas oil. One tycoon asked for all the items in a store window display delivered to his home for Christmas morning. Stanley Marcus, chief executive from



**LuJo Churchill, above, checked her outfit in a video mirror earlier this month at the newly opened Neiman Marcus store in Fort Worth, Texas. Below, fashion designer Coco Chanel toured a Neiman Marcus store during a 1957 visit to Dallas.**

1950 to 1972, made it happen.

The company, which now includes two Bergdorf Goodman stores in Manhattan, opened outposts in Beverly Hills, Palm Beach, Fla., and other high-net ZIP Codes amenable to \$5,000 gowns and \$2,500 handbags. Its annual Christmas catalog displayed such gifts as a \$1.5 million Valkyrie-X private plane. That kind of extravagance earned it the nickname Needless Markup.

"Our mantra had always been, 'There is nothing too expensive for our customer,'" one former executive said.

Burt Tansky, CEO for nine years until 2010, was fond of saying, "I'd rather have one customer spending \$5 million, than five million customers spending \$1," other executives said. Mr. Tansky declined to comment.

The strategy allowed Neiman to increase average prices 7% to 9% annually until 2015, executives said. Some didn't believe it was sustainable. "Every time Burt would say that I would cringe," said Steven Dennis, who was Neiman's senior vice president of strategy and marketing from 2004 to 2008.

Price-increase profits, though, were common among Neiman's peers. A 2015 Bain study found the entire luxury industry benefited from "relentless price increases over the past five to 10 years."

Consumers had little choice but to pay up because high-end brands tightly controlled distribution of their goods, usually keeping supplies limited to avoid end-of-season markdowns. And, until re-



SOUTHERN METHODIST UNIVERSITY/ASSOCIATED PRESS

cently, few luxury goods were sold online, which gave brands a tighter rein on prices.

"One of the tricks to luxury is price discipline," said Aaron Cherasi, the head of Bain's retail practice for the Americas. Shoppers pay full price, he said, when they can't "get stuff for less."

But competition from startups like Farfetch.com and Matchesfashion.com are forcing more discounts. Over a recent 24 hours, Farfetch's prices averaged 2% lower and Matchesfashion's 15% lower than Neimanmarcus.com's prices on 32 identical items, according to price-tracking firm Market Track LLC.

A Neiman spokeswoman said the comparison didn't take into account a promotion at the time that offered a gift card worth 25% off a purchase.

While brands still exert control, particularly over the newest and most popular items, it is harder for them to police prices that change rapidly across websites and fluctuate with shifting exchange rates, industry executives said.

The explosion of discount chains, led by T.J. Maxx, that sell designer brands at cut-rate prices also made consumers rethink the need to pay full price. To compete, high-end department stores rushed in with their own off-price chains—Neiman's Last Call, Saks Off 5th and Nordstrom Rack.

Market forces have "started to commoditize products that were once extremely exclusive," said Jenna Giannelli, a Citigroup Inc. analyst. About 37% of luxury goods sold at less than full price last year, Bain estimated, up from 32% two years ago.

Anais Assoun, a faithful Neiman customer, said she was never a sale shopper: "If I wanted something, I would buy it at full retail." These days, the Dallas resident shops sales, she said, because "regular retail doesn't feel like a good value. You can easily spend \$2,000 on shoes, which not that long ago would have been insane."

The retailer appears to be drawing more youthful shoppers, with a bit more than half of its customers age 50 or younger as of July, compared with slightly less than half a year earlier, according to securities filings.

Ms. Katz recently told analysts that Neiman is simply replacing aging baby boomers with "the next generation."

While younger shoppers are important to help brands stay relevant, they aren't buying luxury goods the way they once did.

"Back in 2007, there were young women who would skip meals to save money to buy the latest Marc Jacobs bag," said Michael Crotty, a marketing executive who has worked at Nordstrom and Neiman Marcus. "Having the right bag, the right shoe, meant so much."

To celebrate her 29th birthday last month, Veronica Kamenjarin, a Chicago attorney, splurged on a wine-tasting trip to Napa Valley, where she and her husband dined at the exclusive French Laundry. The last time she bought a designer handbag was four years ago.

Ms. Kamenjarin said she chose a classic Louis Vuitton style that wouldn't go out of fashion: "I didn't want to worry about having to buy the

latest bag every year."

Neiman has less of a cushion than rivals because of its debt, which dates to its 2005 sale to Warburg Pincus LLC and TPG for about \$5.1 billion.

To boost returns, Warburg and TPG paid mostly with borrowed money. The owners, along with bankers at Credit Suisse Group AG, came up with a new type of debt—called pay-in-kind, or PIK, toggle bonds—to protect against a downturn. These instruments allow the issuer to make interest payments by issuing new bonds rather than paying in cash.

Investors were drawn by a better yield, and PIK toggle bonds became a feature of many of the era's corporate buyouts. To celebrate their Neiman purchase, the buyout firms hung plaques fitted with replicas of old-fashioned factory switches.

When the financial crisis hit in 2008, and sales fell, Neiman's owners didn't want to spook suppliers by drawing on a credit line to make interest payments, people familiar with the matter said. Instead, they issued new debt to cover payments for nine months through October 2009.

In Warburg's New York offices, employees flipped the wall-mounted switches from "cash" to "bonds," some of these people said.

When Neiman resumed cash payments in mid-2010, Warburg employees celebrated by switching the toggle back, they said.

By then, Neiman was generating enough cash to pay down debt, and the owners plotted their exit. They took nearly \$450 million out of the company as a dividend a year before selling it for about \$6 billion in 2013 to Ares and the CPPIB. The sellers more than doubled their cash investment in the deal. The new owners, meanwhile, loaded Neiman with more debt. By 2014, Neiman owed \$4.7 billion, up from \$250 million in 2005.

Ms. Katz got this advice after the 2013 deal by one of the sellers: Pursue a public stock offering as soon as possible and use the proceeds to pay down debt, according to a person familiar with the matter.

The owners have largely eschewed debt reduction, instead spending more than \$900 million to refurbish stores, open new ones and beef up Neiman's online business, according to securities filings and a person familiar with the matter. The company had about \$4.6 billion of debt as of January.

Neiman filed for an IPO in 2015, but withdrew the offering this year as its business faltered. With Neiman's bonds trading at around 60 cents on the dollar, the company could have trouble accessing the capital markets to refinance notes coming due in 2020 and 2021, according to Ms. Giannelli, the Citi analyst, with investors skeptical it can repay the debt.

On Friday, Neiman's owners once again chose to issue new debt to cover interest payments through Oct. 14, according to a securities filing.

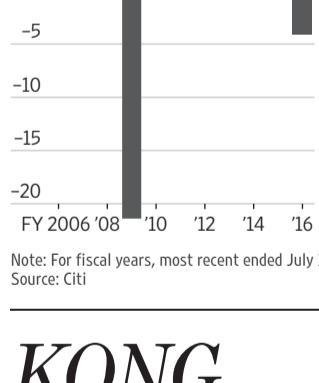
New management and cost cuts follow many corporate buyouts. But Neiman's owners have left Ms. Katz and her team alone. "Each of them has allowed us to do what we've needed to do to grow the business," she said.

Yet, it is hard to ignore the rationale for combining Neiman and Saks, said Stephen Sadove, former Saks chief executive. "It's a tougher luxury environment," he said, "and you need more scale."

### Neiman Marcus: Debt Up, Sales Growth Down

Luxury retailers were long thought immune to the troubles of mass-market chains.

#### Same-store sales growth



Note: For fiscal years, most recent ended July 30

Source: Citi

THE WALL STREET JOURNAL

Total debt

\$5 billion

FY 2006 '08 '10 '12 '14 '16

THE WALL STREET JOURNAL

Great Grandfather Turtle was actually Great Grandmother Turtle. Mr. Duc estimated she was hundreds of years old. She weighed 360 pounds.

After Cu Rua turned up dead last year, some Vietnamese worried that a disaster would befall the country. It is already facing a number of challenges. The collapse of a cross-Pacific free trade pact is threatening to slow exports and Vietnam is again facing off against China, this time for control of atolls and reefs in the South China Sea.

Building a Kong statue now, Mr. Duc warned, would be tempting fate just a little too much. Eventually, the city government agreed. "We have advised the People's Committee of Hanoi to demand that the Ministry of Culture, Sports and Tourism choose a more suitable location for any Kong model," said Truong Minh Tien, who is deputy director of the city's cultural and sports department.

Officials are now sketching out plans for a monument to Cu Rua instead. "It's exciting," Mr. Duc said. "We could have a competition to select the best design."

THE WALL STREET JOURNAL

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# LIFE & ARTS

## HEALTH

# The Endangered ‘Good Doctor’

Renowned oncologist Burton Lee is remembered as a savior—and a tragic figure—by one of his patients

BY LUCETTE LAGNADO

Vero Beach, Fla.

**AT A MEMORIAL SERVICE** in this seaside community recently, I found myself walking down the aisle of a Protestant church, in a procession of family members honoring a local resident, Burton J. Lee III.

Dr. Lee wasn't my relative. He was my oncologist, ever since I was a teenager with Hodgkin's disease, a cancer of the lymph-node system. In the pew, I sat alongside Dr. Lee's widow, his children and stepchildren, sibling, half-siblings and twin sister.

A nationally renowned physician, Dr. Lee had worked for a U.S. president and helped change the country's policy on AIDS. He also had cared for me as if I were his own daughter over the course of four decades, from Memorial Sloan Kettering Cancer Center, where we met, to the White House, where he served as physician to George H.W. Bush, to a brief stint running a biotech firm, to a Florida retirement enclave where he insisted he wasn't retired.

Dr. Lee never ceased being my doctor—even decades after my disease went into remission. He was the physician I put my faith in for medical and non-medical decisions from the time I was a terrified 16-year-old to years later, when, as a young journalist, I flew to Washington for a checkup at the White House. I continued to see him in Vero Beach, where his living-room couch became the examining table.

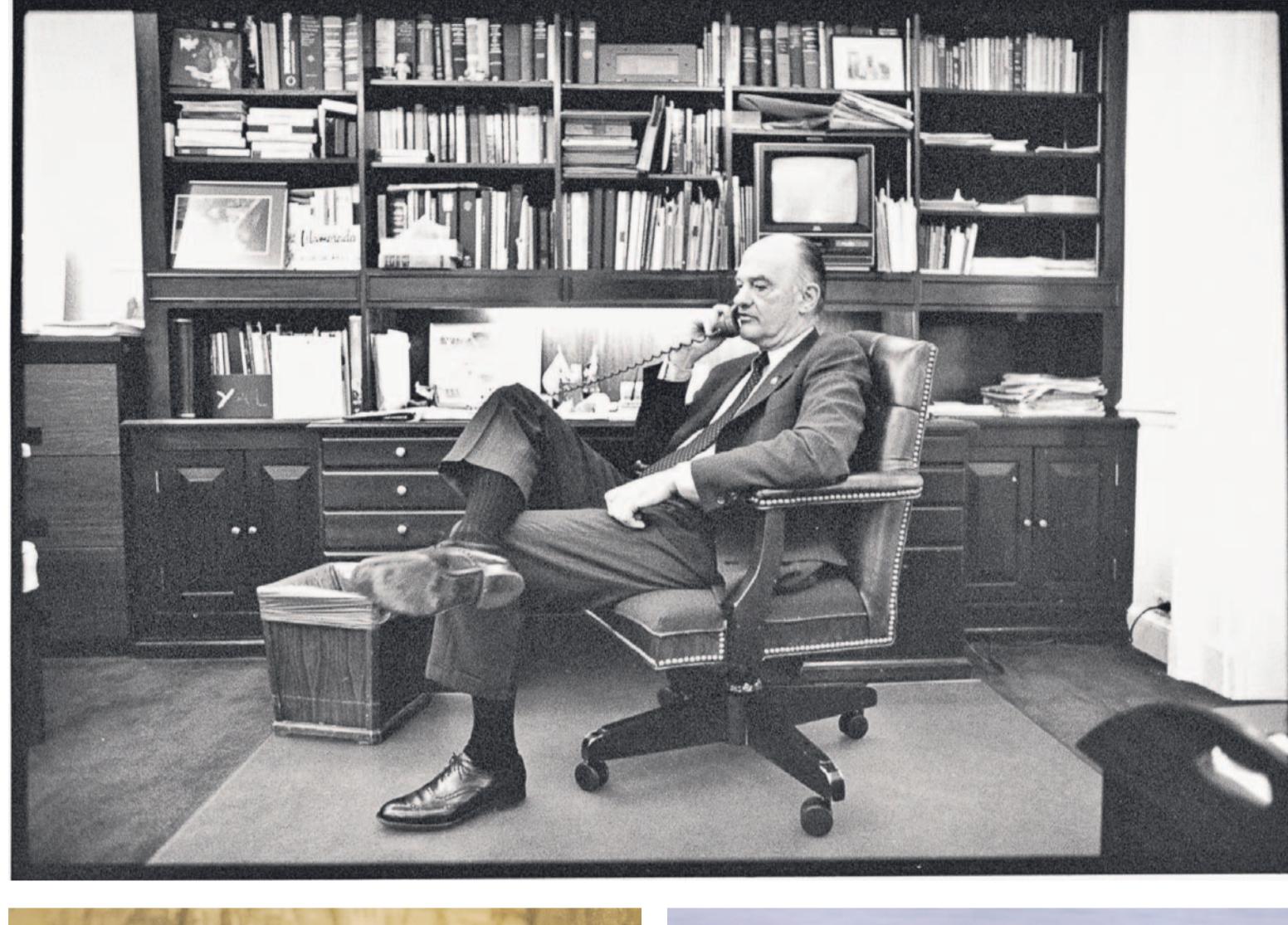
Dr. Lee embodied what the French call *le bon docteur*—“the good doctor” who is equally skilled in making a diagnosis as in figuring out the treatment, and one who befriends patients, seeing the human connection as essential to curing the disease. Today, that doctor-patient relationship is eroding in a world of ever-briefer consultations, clinical algorithms and electronic health records that keep physicians glued to a computer rather than focused on the patient. The high-achieving—and difficult—Dr. Lee took the time to treat body and soul, putting him at odds with a changing profession as well as some of his colleagues.

At the service, Paul Hetzel, a physician who had trained at Memorial Sloan Kettering and fallen under Dr. Lee's spell, recalled, “He taught me how to look at a patient and determine how they were doing without X-rays, CT scans and the like.” Later he told me that Dr. Lee emphasized the importance of knowing “more about the patient than their disease.”

Recent years have seen the culture of medicine change, Carol Bernstein, an associate professor of psychiatry at NYU School of Medicine, said in an interview. “There is no time anymore for the doctor to be with the patient.”

Concerned by how alienated doctors feel, the American College of Physicians is seeking to reduce those burdens. In a position paper published March 28 in the Annals of Internal Medicine, the organization wrote that mounting administrative tasks “divert time and focus from more clinically important activities of physicians and their staffs, such as providing actual care to patients and improving quality.”

Nitin S. Damle, president of the



CLOCKWISE FROM TOP: WILLIAM FOLEY/LIFE IMAGES COLLECTION/GETTY IMAGES; ANN LEE FAMILY ARCHIVES; MARY JO BALKIND LEE FAMILY ARCHIVES

American College, says, “I think the joy of medicine is really the relationship with the patients over a long period of time.”

Time, of course, was what Dr. Lee never stinted on with me.

### Studying the Patient

He treated me at Sloan Kettering's Lymphoma clinic, where Medicaid patients were seen. The first time we met, I peered at him suspiciously, a tall unsmiling man in gray flannel slacks and a shirt with rolled-up sleeves. If he was a doctor, why wasn't he wearing a white coat?

I was scared out of my wits—and it didn't help that he was looking at me intently. I didn't know that that was how he assessed a case, simply by studying a patient. But he calmed me with easy banter. I was a senior in high school.

Dr. Lee and I weren't merely from different backgrounds but different universes. He grew up on Manhattan's East Side, then moved to his grandfather's estate on Long Island. He went to Phillips Academy Andover, Yale and medical

school at Columbia.

I was the daughter of Jewish immigrants from Egypt with few resources. At home in Brooklyn, my family was unraveling in the face of my illness. My dad became teary as he asked Dr. Lee to care for me. Dr. Lee, uncomfortable, ushered him out of the office. When my mother pleaded with Dr. Lee to take over my case, he warned that we couldn't afford him. Suddenly, he relented and declared he would become my personal physician.

“Madam, I will save your child,” he vowed.

From then on it was only he and I. No parents, no outsiders, no *buttinckys*. Dr. Lee controlled the course of my treatment with an iron hand. Years later, I befriended another patient of his, the actress and artist Kathryn Beckwith, who told me she had dubbed him “General Patton.”

But he also dealt with me—and my fragile teenage angst—with compassion.

Beyond health, he had strong opinions about pretty much any subject. Friends, romance, which novels I should read, what social trends I should embrace—he counseled me on any and all.

He also fascinated me with glimpses of another, glamorous life. He loved to talk about his beautiful wife, Ann, from Nassau, the Bahamas. He would mention their home in Old Greenwich and trips to Martha's Vineyard.

Then there was the photograph on his desk of a row of girls in bikinis alongside a strapping guy. They were his kids, he said—five daughters and a son. I stared at the picture with longing, day-dreaming about those attractive children and how lucky they were to have Dr. Lee as a father.

I didn't know about the pain and divorce, the fact that three of the children were from his first marriage and three were stepdaughters whom he was raising as his own.

### A Physician in Exile

Some people saw Dr. Lee as difficult and cantankerous. While he had his fervent admirers, he occa-

sionally clashed with colleagues and fought with those he felt were underperforming. I often thought he relished being a thorn in the side of authority figures. At Sloan Kettering, he rose through the ranks to become the senior physician in the Lymphoma Service. An expert in Hodgkin's and multiple myeloma, he developed some of the earliest protocols that became standard treatment throughout the world, according to the hospital.

In the late 1980s, through connections to the Bush family, he was appointed under President Reagan to a special commission on AIDS. When President George H.W. Bush appointed him physician to the President, Dr. Lee resigned from Sloan Kettering—a decision he came to regret. The cancer world was changing when he emerged from the White House.

Sloan Kettering, for example, was increasingly favoring scientists over old-fashioned clinicians like Dr. Lee. The shift was a mistake that would hurt patients, he said—one of many convictions that likely hurt his career. After a brief, unhappy stint running a cancer program in South Carolina, he never

worked as an oncologist again.

In Vero Beach, he fought to improve health access for the poor, volunteering his services and urging other doctors to care for the uninsured.

“He was a purist. He held his views and expressed his views and there was no middle ground,” says Larry Norton, a deputy physician in chief for breast cancer programs at Sloan Kettering. Dr. Norton became my doctor some years ago.

After Dr. Lee's clashes at Sloan Kettering, within the Bush White House and then the Vero Beach medical community, I came to see him as a tragic figure, unable to do the work he loved: practice oncology.

“I am a physician in exile,” he once told me.

Dr. Lee refused to say I was “cured” of Hodgkin's disease. Years later, I asked what determined whether someone's cancer would spread. He paused before answering, “Kismet.”

By then, he was fighting bladder cancer and some of his old bravado was gone. He was 86 when he died last November on the day after Thanksgiving.



Dr. Burton in 2007 flanked by Lucette Lagnado, right, and Kathryn Beckwith.

## OPINION

### REVIEW & OUTLOOK

## Trump's Art of the China Deal

President Trump is reversing some of his foreign-policy positions, but this should be no great surprise and so far the changes are mainly for the better. Mr. Trump is never going to pursue a consistent geopolitical strategy because he doesn't think that way. As President he is approaching the world as he does everything else—as a transactional deal maker who wants agreements that he can sell as a security or economic success. Exhibit A is his recent engagement with China over North Korea's nuclear-missile program.

Mr. Trump campaigned last year as the President who would challenge China's trade practices, naming Beijing a currency manipulator "on day one." But after the election President Obama advised him to make North Korea's nuclear advances a priority. Mr. Trump had no problem shifting quickly from threatening China on trade to using trade as a lever to get China to help the U.S. restrain or end North Korea's nuclear threat.

"Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!" Mr. Trump tweeted on Easter Sunday, explaining why his Treasury Department chose not to slap the manipulator label on China. This policy shift has the added benefit of recognizing that China has been trying for months to prop up its currency, not devalue it for trade advantages.

Meanwhile, the Trump Administration has made a theme of ramping up political pressure on North Korean dictator Kim Jong Un. The Pentagon sent a carrier group to the East China Sea for maneuvers with the Japanese navy. Mr. Trump tweeted after his meeting with Chinese President Xi Jinping this month that "I have great confidence that China will properly deal with North Korea. If they are unable to do so, the U.S., with its allies, will!"

H.R. McMaster, Mr. Trump's national-security adviser, warned North Korea on Sunday that its "destabilizing" behavior "can't continue" after the North launched another missile Saturday, albeit a failure that exploded soon after launch. There's been much media speculation that a U.S. cyberattack helped to scuttle the missile launch. We'd like to think

### Will Xi Jinping really help the U.S. contain North Korea?

so, though no one in government has confirmed it.

The problem is that so far there's little evidence that China is changing its policy toward Pyongyang. The case for optimism includes some editorials in Chinese state media criticizing the Kim regime, as well as reports that China has turned back North Korean ships carrying coal exports. The White House also points to China's decision last week to abstain at the United Nations and not join Russia in vetoing a resolution condemning Syria's chemical attack.

But none of this deterred Mr. Kim from his Saturday missile test or from a public parade of military hardware and missiles. China's trade with the North has grown tenfold in the past 15 years, even as China has claimed to support U.N. sanctions to punish Pyongyang. And China has played a double game on the North's coal exports in the past. ("China's North Korea Feint," March 3, 2017.)

China's official rhetoric toward the North also hasn't changed, with Foreign Minister Wang Yi telling reporters Friday that "we call on all parties to refrain from provoking and threatening each other, whether in words or actions, and not let the situation get to an irreversible and unmanageable stage."

That's the usual Chinese formulation blaming the U.S. and the North equally for tensions on the Korean peninsula. China still shows no sign of considering regime change in the North, even to a friendly new dictator who wouldn't pursue intercontinental nuclear missiles. And it hasn't shown that it's willing to enforce sanctions to a degree that would seriously squeeze the North.

Perhaps that will change, as Mr. Trump's hopeful tweets imply. But China is expert at offering cosmetic concessions while adhering to what it considers its long-term national interests. China's goal now may be to coax Mr. Trump into the same multinational arms-control dialogue with North Korea that has failed three previous U.S. Presidents.

Mr. Trump's art of the deal includes keeping adversaries guessing, but eventually China may choose to test how far he is willing to go to stop a Korean nuclear missile. Mr. Trump needs to make clear what he will do if China won't make a Korean deal.

## Not Lawless in Seattle

Seattle's attempt to unionize the drivers of ride-share companies like Uber and Lyft has careened into the guardrail known as the law. A federal judge has granted a preliminary injunction against the ordinance, with nationwide implications.

"The Court is cognizant of the fact that the public is interested in this litigation and its outcome," Judge Robert Lasnik wrote. "[T]he issues raised here may well impact not only for-hire transportation, but also other sectors of the economy that have come to rely heavily on independent contractors instead of employees."

Under the Seattle ordinance, the Teamsters union had the right to organize ride-share drivers through a public card-check process that allows them to prevent secret elections and set up collective bargaining. The companies that coordinate drivers, including Uber and Lyft, were required to hand over their drivers' contact information to the union by April 3.

The preliminary injunction came in response to a lawsuit brought by drivers and an-

### A judge stops the city's bid to unionize Uber and Lyft drivers.

other by the U.S. Chamber of Commerce alleging the law violates the National Labor Relations Act and breaks antitrust laws by endorsing a system in which independent contractors can band together to set prices for their services. That's typically called price fixing.

To issue the injunction, Judge Lasnik had to conclude that the plaintiffs may win on the merits. He wrote that the suit had "raised serious" antitrust questions and that forcing the companies to turn over drivers' personal information presented a risk of irreparable harm. While Seattle might have an interest in regulating the ride-share economy, the judge wrote, "the public not only has an interest in safe and reliable transportation networks, but also in the enforcement of the laws Congress has passed."

Judge Lasnik is a Bill Clinton appointee, and his opinion sometimes reads as if he would have preferred to rule differently but that the law simply didn't allow it. Kudos for putting politics aside to rule in the public interest.

## America's Pizza Minders

The U.S. Food and Drug Administration can't possibly fulfill all of the responsibilities it claims to have, and here's one way the Trump Administration can set better priorities: Direct the agency to end its effort to inform Americans that pizza contains calories.

An FDA rule to take effect May 5 requires chain restaurants to post calorie counts on menus. The regulation also covers movie theaters, grocery stores, breweries and other establishments with more than 20 locations. The rule, required by the Affordable Care Act, has been revised and twice delayed in six years, mostly due to objections from a trade coalition called the American Pizza Community. (Regrettably, it doesn't issue membership cards.)

The more than 100-page rule, perhaps the longest meditation on fast food ever published, says that pizza purveyors must display per slice calorie ranges. Dominos offers 34 million potential combinations, and the number of pepperonis on a pizza can vary based on whether a customer also tosses on green peppers or something else. FDA suggests displaying verbiage like "pepperoni—200 added calories for a one-topping pizza" for every topping. Better have a calculator when ordering.

The regulation also defines menu to include advertisements or flyers that list a phone number or website for ordering—in other words, marketing material. The restaurant must certify that the store made "reasonable" efforts to ensure that calorie estimates are accurate, though the minds behind this rule don't sound

like reliable arbiters of reasonableness. The penalty for noncompliance is fines, jail or, this being America, class-action lawsuits.

The micromanaging extends to menu font and colors, which must be "the same color or in a color at least as conspicuous" as other types, according to FDA guidance.

By the way, none of this will help consumers eat less pizza: Most customers place orders online or over the phone, not from a menu board. Dominos offers an online Cal-O-Meter to help customers know what they're eating. Restaurants are already required to make this information available in stores and the web for those who wish to know.

The rule has also riled grocers who must label tuna sandwiches or other fresh foods where preparation isn't standardized. A supermarket trade association, the Food Marketing Institute, says compliance will cost at least \$1 billion and some grocers may decide to stop selling prepared foods.

A bill in the House would allow chains flexibility on where and how to display the counts, including online if most customers place orders on the web. The Senate has introduced companion legislation but skipped town last week and will almost certainly miss the May 5 enforcement date.

Meanwhile, the Trump Administration could direct the agency to delay or reconsider the rule until Congress acts. That would be a useful step in returning government to its core competencies, assuming any still exist, and allow Americans to make their own judgments about pizza.

## Silicon Valley and The Silver Screen

By Michael S. Malone

It started as a match made in heaven. Hollywood and Silicon Valley: a perfect pairing of good looks and big brains, content and platforms, stars and nerds. The marriage was brokered by a giant with a foot in both worlds, Steve Jobs, who with iTunes gave the music industry a solution to its mishandling of piracy. No one seemed to mind that it was a shotgun wedding.

Now the relationship is on the rocks, a victim of seemingly irreconcilable differences. The biggest technology companies—Apple, Facebook, Amazon and Google—are enjoying unprecedented success, while most major film studios can't seem to catch a break.

Celebrity divorces can be entertaining material for gossip sites, but a split between two of America's most dynamic industries could have serious consequences. These economic engines need each other to exist. As Sony founder Akio Morita once quipped when explaining why his company had bought Columbia Pictures in 1989: "Hardware needs software." A media player or distribution platform is worth nothing without content to watch or games to play.

Hollywood always had a youthful image, but it isn't keeping pace with a new generation of easily distracted, mobile-first consumers. Getting the under-25 audience to abstain from social media for two hours and sit in a dark auditorium is increasingly difficult. The television business, too, was built for a bygone era, a quainter time when tens of millions of Americans gathered around the set to watch the same program. Now it's any screen, anytime, anywhere.

Silicon Valley's business model is far more agile. In the 18 months Hollywood takes to make and release a film, the tech industry could recalibrate its entire future. These companies thrive on creative destruction, which is why they are constantly designing fresh platforms. An app can go from zero users to hundreds of millions in a few years.

Hollywood rightly feels under attack. The studios and media companies carry on their century-old task of telling stories that move viewers—only now they sell their creations to competitors in Northern California. There's no way Hollywood can win under the current rules.

Big-screen ticket sales are still a \$38 billion a year industry, but the trends are worrisome. With so many other options competing for time and attention, it now takes massively expensive blockbusters to pull in a strong box office. Even then, one action-packed film's \$250 million budget could have been used in San Francisco to incubate a dozen startups.

Simply improving communication between the two industries—through the executive summits and technology conferences put on by Paramount's New Media head, Tom Hayes, for example—would go a long way as well. If mutual distrust can be overcome, there's room for greater collaboration on everything from chat bots to better cameras. This could hasten the arrival of new consumer experiences that benefit both sides.

The potential is there. Imagine if the world's two most famous economic superheros joined forces to reinvent the future. Sounds like an epic movie.

*Mr. Malone is a writer in Silicon Valley.*

## An Infrastructure Lesson For Trump the Builder

By Ben Brubeck

President Trump may be a famous builder, but he could learn something about infrastructure from Wisconsin's Scott Walker and Iowa's Terry Branstad. On Monday, Gov. Walker was expected to sign a law prohibiting state agencies and local governments from mandating "project labor agreements" on public works.

Gov. Branstad signed a similar measure last week. Mandated PLAs are a sop to unions that inflate construction costs and discourage competition.

Mr. Trump should issue an executive order to follow suit nationwide. On election night he promised to "rebuild our highways, bridges, tunnels, airports, schools, hospitals." He has floated a \$1 trillion infrastructure plan. But much of that could be wasted if Democratic states and cities force projects to operate under PLAs.

When a PLA is mandated, typically it means that contracted builders, whether union or not, must hire union workers, pay into union benefit plans and follow union work rules. That effectively limits the pool of bidders, since nonunion contractors don't want to abandon their workforces, a key competitive advantage, for strangers from union halls. Less than 14% of America's private construction workforce has chosen to join a union.

In 2001 President Bush signed executive orders that barred government-mandated PLAs on projects with federal involvement. President Obama reversed that policy in 2009. His executive order encourages PLA mandates on federal projects over \$25 million and allows recipients of federal funds to require them.

The effect is to drive up costs. A 2011 study examined 551 school projects in California from 1995 to 2009. The data showed that "costs are 13 to 15 percent higher when school districts construct a school under a PLA." Or take a specific example, a Job Corps center in Manchester, N.H., for which the Labor Department sought

bids to build in 2009. Originally the project had a PLA. But a merit-shop contractor filed a successful bid protest. When the PLA mandate was removed, three times as many bids came in, at prices 16% lower. That saved taxpayers \$6 million.

Proponents of PLAs claim that they prevent cost overruns and delays by discouraging strikes. As Mr. Trump knows from experience, however, the mere presence of a PLA won't prevent

### Project labor agreements' invariably drive up costs on public-works projects.

union members from going on strike. In 2006 three unions helping build the Trump hotel in downtown Chicago walked off the job, despite a no-strike clause in the project's PLA.

Because of the difficulties PLA mandates present to construction firms, 23 states have passed measures against them. Yet in blue states that are heavily influenced by organized labor, PLAs remain a significant drag on the pace and cost of construction.

In Seattle a PLA hasn't protected the Highway 99 tunnel from delays, safety concerns, cost overruns, strikes and worse. Since May 2010, data from the U.S. Transportation Department show, PLAs were mandated on 382 contracts valued at \$8.7 billion.

America deserves infrastructure investment free from special-interest handouts. By reinstating a ban on government-mandated PLAs for projects that accept federal funds, President Trump can make good on his election-night promise. With the stroke of a pen, he can begin rebuilding America's infrastructure—with the help of all qualified businesses and labor at a price that's right for the taxpayer.

*Mr. Brubeck is the vice president of regulatory, labor and state affairs for the Associated Builders and Contractors.*

## OPINION

# The Border-Adjustment Tax Slight of Hand

By Veronique de Rugy  
And Daniel J. Mitchell

**W**ith Republicans in control of Capitol Hill and the White House, this should be an opportune time for major tax cuts to boost U.S. growth and competitiveness. But much of the reform energy is being dissipated in a counterproductive fight over the border-adjusted tax proposed by House Republicans.

**The double levy on U.S. companies' overseas profits is the actual 'Made in America tax.'**

The plan calls for dropping the top corporate-tax rate to 20% from 35%, while exempting exports and taxing imports. House Republicans have latched onto the border-adjusted tax for a very practical and understandable reason. It supposedly would generate more than \$1 trillion of tax revenue over 10 years. That money could finance other parts of their agenda to generate growth, such as replacing today's onerous depreciation rules with immediate expensing.

Although their intentions are reasonable, this strategy is questionable. Start with the political blunder: Republican tax plans normally receive overwhelming support from the business community. But the border-adjusted tax has created deep

divisions. Proponents claim border adjustability is not protectionist because it would automatically push up the value of the dollar, neutralizing the effect on trade. Importers don't have much faith in this theory and oppose the GOP plan.

Their concerns are legitimate. No country has ever imposed a border-adjusted corporate-income tax, so this is uncharted territory. But many countries have value-added taxes, or VATs, that are border-adjustable, and their experience might serve as a reasonable proxy.

A review of the empirical literature shows that currencies adjust when a VAT is applied, but they do so neither entirely nor quickly. Factors such as poor design or improper administration can get in the way.

If the currency adjustment were perfect, there should be no effect on trade volume. But research has shown that VATs are associated with both lower exports and imports. A 2005 academic study examined 136 nations and concluded: "Countries using VATs have one-third fewer exports than do countries not using VATs, and 10 percent greater VAT revenue is associated with two percent fewer exports."

Proponents of the border-adjusted tax also are using a dodgy sales pitch, saying that their plan will get rid of a "Made in America Tax." The claim is that VATs give foreign companies an advantage. Say a German company exports a product to the U.S. It doesn't pay the American corporate-income tax, and it receives a rebate on its German VAT payments. But an American company exporting to Germany has to pay both—it's



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subject to the U.S. corporate-income tax and then pays the German VAT on the product when it is sold.

Sounds horribly unfair, right? Don't be fooled. Like magicians, those making this argument are distracting the unwary, hoping that nobody will notice the trick.

Here's the real story: What matters from a competitive perspective is whether the playing field is level—and it is. When the German company sells to customers in the U.S., it is subject to the German corporate-income tax. The competing American firm selling domestically pays the U.S. corporate-income tax. Neither is hit with a VAT. In other words, a level playing field.

What if an American company sells to a customer in Germany? The U.S. government imposes the corporate-income tax and the German government imposes a VAT. But

guess what? The German competitor selling domestically is hit by the German corporate-income tax and the German VAT. That's another level playing field. This explains why economists, on the right and left, repeatedly have debunked the idea that countries use VATs to boost their exports.

Companies can be disadvantaged, though, if their country's tax regime is onerous. One big plus for Americans is that Washington doesn't impose a VAT, which would enable government to grow. This is a major reason that the U.S. economy is more vibrant than Europe's. In Germany, the VAT raises so much tax revenue that the government consumes 44% of gross domestic product—compared with 38% in America.

On the other hand, America's top corporate-income tax of 35% is the

highest in the developed world. If state corporate-income taxes are added, the figure hits nearly 40%, according to the Congressional Budget Office. That compares very unfavorably with other nations. Europe's average top corporate rate is less than 19%, and the global average is less than 23%, according to the Tax Foundation. The damage is compounded because the U.S. has a "world-wide" tax system, putting an extra levy on income that American companies earn overseas. That's the real "Made in America Tax," and it's America's own fault.

The solution is to reduce the corporate rate and adopt a territorial tax system, taxing only profits earned at home, as almost all other Western countries do. The good news is that the House plan does both these things. The bad news is that the proposal is weighed down by the border-adjusted tax. Republicans should drop this controversial provision and focus on the policies that will boost growth.

To get the maximum bang for the buck, the final package should include restraints on spending—which doesn't even mean an absolute budget cut. If Congress simply limits the growth of outlays to about 2% a year, that would create enough fiscal space to balance the budget over 10 years and adopt a \$3 trillion tax cut. If Republicans want a win-win, dropping the border-adjusted tax is the way to get one.

*Ms. de Rugy is a senior fellow at George Mason University's Mercatus Center. Mr. Mitchell is a senior fellow at the Cato Institute.*

## The Truth Behind China's First-Quarter Numbers

By Michael Pettis

**T**he first-quarter statistics released Monday seem to suggest the Chinese economy is healthy and booming. Gross domestic product rose by a greater-than-expected 6.9%, above the 6.8% achieved in the previous quarter and comfortably above 2017's GDP growth target of 6.5%. But a closer look at the figures points to a very different conclusion.

A year ago, debt was surging and growth falling away. So much capital was fleeing the country that even with a huge current-account surplus, the central bank's reserves eventually declined by nearly a quarter from their June 2014 peak.

Today sentiment has changed dramatically. Reserve levels have stabilized and economic growth is on track to meet Beijing's 2011 promise to double China's GDP between 2010 and 2020. There is even a growing consensus that the worst of China's adjustment is behind it, and that once Beijing gets debt under control, something on which banking regulators have clearly set their sights, China can enjoy an-

other decade of 5% to 6% growth.

This guardedly optimistic narrative seems to have been confirmed by recent economic data. China's exports were reported last week to have increased in March by 16.4%, well above the consensus forecast of 5%. Imports were up too, by a stronger-than-expected 20.3%. This left China with a healthy trade surplus of \$23.93 billion, compared with February's \$9.15 billion deficit.

Credit and monetary data were more mixed. Regulators seem to have tightened their grip on China's banks and restrained loan growth in March to 1.02 trillion yuan (\$148 billion), below February's 1.17 trillion yuan increase and well below expectations of 1.25 trillion yuan.

Total social financing, however, was up by 2.12 trillion yuan in March. This wider and more accurate measure of credit came in substantially higher than the consensus forecast of 1.5 trillion yuan.

Monday's first-quarter GDP figures look broadly consistent with the new consensus. After five years of decline, growth seems to have bottomed out, and while debt continues to grow too quickly, the regu-

lators have successfully targeted credit growth in certain especially worrying sectors. With the right policies and, more importantly, the necessary resolve, Beijing might finally get debt under control, after which China can put its difficult economic adjustment behind it.

### The latest GDP figures are driven by debt, not productive capacity.

Unfortunately the new consensus misreads the Chinese economy just as badly as it did last year, when a crisis was expected. The GDP figures do not represent growth in the country's productive capacity. Rather it is growth in economic activity driven by debt.

Beijing has not been able to control credit expansion. It has only done so in targeted sectors by forcing greater credit growth elsewhere.

Debt overall must continue to accelerate in China because this is the only way to generate the additional demand needed to boost economic

activity to a level that is politically acceptable. But this is at least double the sustainable growth rate that can be organically generated from rising household income and needed investment. So growth in debt substantially exceeds growth in the country's debt-servicing capacity.

It's easy to see the role debt plays. March's 2.12 trillion yuan increase in debt was part of the 7.01 trillion yuan increase in debt in the first quarter of 2017, an amount equal to an astonishing 39% of the country's first-quarter GDP. Most of this increased lending went to fund a 13.6% increase in public-sector investment, much of it unproductive. It was this investment that drove economic activity in first quarter above China's sustainable growth rate.

For many years China has needed increasing amounts of debt to generate each unit of GDP growth, a phenomenon that Hyman Minsky explained is always present in the late stages of an investment bubble. This has locked China into a vicious circle.

Rising debt automatically forces down the sustainable growth rate

because of the accumulation of financial distress effects caused by the debt. As it declines, the gap between the sustainable growth rate and China's GDP growth target has risen, requiring even greater credit expansion. Growth can rise or hold steady in the short term, in other words, but only through rising debt, and this inevitably reduces growth over the medium term.

For now China's GDP growth is largely driven by the political calendar. President Xi Jinping must consolidate economic decision making in the run-up to this year's Party Congress if he is to implement the difficult reforms that will break China out of its debt cycle. Higher growth early in the year will make this easier.

If Mr. Xi is successful in overcoming vested-interest opposition, however, GDP growth will probably decline to barely above 6% by year end, and will continue to decline sharply over the rest of this decade. The more rapidly it declines, the better for China.

*Mr. Pettis is a finance professor at Peking University.*

## India's Backward Politics of Food

By Sadanand Dhume

**I**s it acceptable for vigilantes to beat a man to death for transporting cattle? In most countries, the question would be ludicrous. In India it has sparked a fresh round of debate on a charged issue: how governments should regulate beef in a land where most people regard the cow as sacred.

Earlier this month, on a busy highway in the northern state of Rajasthan, self-appointed cow protectors stopped two pickup trucks carrying livestock bought at a local market. The mob assaulted Pehlu Khan, a 55-year-old Muslim dairy farmer, and four other men. Khan later died in hospital of injuries suffered during the beating.

India's ruling Bharatiya Janata Party has tightened restrictions on beef in several states that it rules. Proponents of these laws see cow protection as an essential symbol of

a humane Hindu civilization that values life. According to the conservative columnist Swapan Dasgupta, restricting beef in India is a matter of "bowing to common decencies."

Many BJP supporters also view the issue through an historical prism. They argue that for centuries, first under Muslim rulers and then under the British, Hindus lacked the political power to end a practice that they found both hurtful and humiliating. It's only natural then for independent India to honor the religious sentiments of the vast majority of its people. About four in five Indians are Hindus, most of whom revere the cow.

Beef-ban opponents tend to couch their arguments in the language of modernity and minority rights. In this view, penalties for the sale or consumption of beef are out of step with both modern times and the rest of the world. In a constitutionally secular republic, what

gives pious Hindus the right to police the plates of those who don't share the same taboos?

Moreover, they argue that, with thuggish vigilante groups linked to the ruling party mushrooming in BJP-ruled states such as Rajasthan and Uttar Pradesh, the alleged piety of cow protectors is often little more than a license to harass Muslims who work in the meat industry.

In a democracy, it's hardly unusual for politicians to respond to public sentiment. For example, Taiwan banned the consumption of dog meat earlier this month.

Nonetheless, the rush to protect cows in BJP-ruled states suggests a deeper malaise: Under Prime Minister Narendra Modi and BJP President Amit Shah, personal liberties are shrinking.

Activists linked to the ruling party are often at the vanguard of efforts to slap police cases on authors, justify violence against artists, stop interfaith romances and shut down late-night dance venues. The result: An India that is

reducing the choices its people enjoy on matters of food, drink and entertainment.

Beef is emblematic of the BJP's impulse to ban what it doesn't like. Last month, the western state of Gujarat raised the maximum penalty for cow slaughter, to life in

### Measures against the slaughter of cows show how freedom of choice is shrinking under Modi.

prison from seven years. "Protection of Cows is the single-most important principle towards saving the whole world from both moral and spiritual degradation," tweeted Chief Minister Vijay Rupani.

Not to be outdone, the chief minister of another BJP-ruled state, Chhattisgarh in central India, told a reporter that not a single cow had been killed in the state in 15 years—and that if anyone killed one

he would be hung. In Uttar Pradesh, won by the BJP in a landslide last month, new Chief Minister Yogi Adityanath has placed a drive to shutter allegedly illegal abattoirs at the top of his agenda.

In 2015, BJP-ruled Maharashtra and Haryana put in place stringent regulations against killing cows or selling beef. In Haryana, you can be jailed for five years and fined 50,000 rupees (about \$780) if someone finds a steak in your fridge. Rajasthan's BJP government has set up an entire ministry for cow protection.

Evidently all this is not enough. Last week, the head of the Rashtriya Swayamsevak Sangh, the Hindu-nationalist group that provides the BJP with much of its organizational muscle, demanded a nationwide ban on cow slaughter. Never mind that all but a handful of India's 29 states already place some kind of restrictions on the practice, most dating back to the early decades after independence in 1947.

With national elections approaching in 2019, Messrs. Modi and Shah likely reckon that beef bans will improve their prospects. Anyone who opposes them risks being labeled "anti-Hindu" by the party.

In a larger sense, however, an India that constricts rather than expands the choices its citizens can make is going backward. In most of the democratic world, dealing with diversity involves accommodating an expanding range of dietary preferences: think of halal meat shops in London or vegetarian Indian restaurants in suburban Virginia. It's too bad that India appears to be traveling in the opposite direction.

*Mr. Dhume is a resident fellow at the American Enterprise Institute, and a columnist for WSJ.com.*

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## Notable & Quotable: Opinions

## LIFE & ARTS

WHAT'S YOUR WORKOUT? | Jen Murphy

# A Mom's Love for Mountain Biking

California's rugged terrain drew a veterinarian into downhill competitions, a full-body workout; training includes TRX and yoga

**IT TOOK A WHILE** for Michele Drake's two sons, Christopher, 17, and Matthew, 14, to get used to their mom coming home dirt-covered and bruised.

Dr. Drake, 53, is a hard-core downhill mountain biker. The veterinarian, owner of the Drake Center for Veterinary Care in Encinitas, Calif., and co-founder of GeniusVets, a start up that does digital marketing for veterinarians, had dabbled in mountain biking in her late 20s but stopped riding once she had children. Now, she trash talks her sons when they ride the trails together.

She has been taking downhill mountain biking lessons for five years. In September 2015, she entered her first race, the Kamikaze Bike Games in Mammoth Lakes, Calif. She placed third in the women's downhill competition and won the women's enduro race, which comprises four downhills and two climbs of about one-and-a-half to 2 miles at 8,000 to 10,000 feet.

Dr. Drake, who is divorced and lives in Rancho Santa Fe, Calif., says unlike road cycling, you're barely in the saddle of a mountain bike. "You're in a constant squat and use your core and hips to turn the bike," she says. Pedaling faster when a 3-foot rock is in your path might seem counterintuitive, but Dr. Drake says you can't hesitate. "If you slow down, you'll hit that rock and launch over your handlebars."

The sport, she admits, can be dangerous. Last year, she separated her shoulder and tore her hamstring after flying 30 feet off her bike. "You cannot be thinking about anything but the bike and the trail ahead of you," she says.

### The Workout

Dr. Drake strength trains two to three times a week at a 24 Hour Fitness, less than 10 minutes from her home. Her 60-to-90-minute workouts include interval work on a treadmill, spin bike or elliptical



machine, followed by body weight exercises mostly using a TRX suspension trainer. She does rowing exercises on the TRX to strengthen her back muscles and performs squats on a BOSU ball to work her glutes, legs, and challenge her balance.

Two to three times a week she cranks out a bike ride as hard and fast as she can on the trails of Los Peñasquitos Canyon Preserve in San Diego. "I like to see how many people I can pass in an hour," she says. "If someone is ahead of me I have to pass them. It's a mental game."



She attends a hot power yoga class twice a week at CorePower Yoga, usually after a ride or the gym.

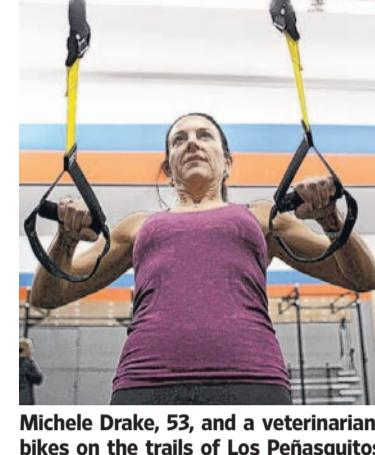
Between June and early October, she tries to spend about 30 days

riding the trails of Mammoth, Calif., where she has a second home, and Whistler, Canada. Mammoth Mountain is a six-hour drive from her home and when she's there, she'll ride four to six hours a day. She tries to compete in one race a year.

### The Diet

Dr. Drake starts her day with coffee, eggs and sliced avocado. She grabs lunch at a

healthy takeout spot near her office, usually getting a protein-packed salad or more eggs. If she can't sneak out for a bite she'll eat a plant-based, Probar Meal bar. Dr.



Michele Drake, 53, and a veterinarian, bikes on the trails of Los Peñasquitos Canyon Preserve in San Diego.

Drake hires a woman to cook for her family. "We eat a lot of stir-fries, grass-fed beef and salmon," she says. Dr. Drake says she splurges on good wine.

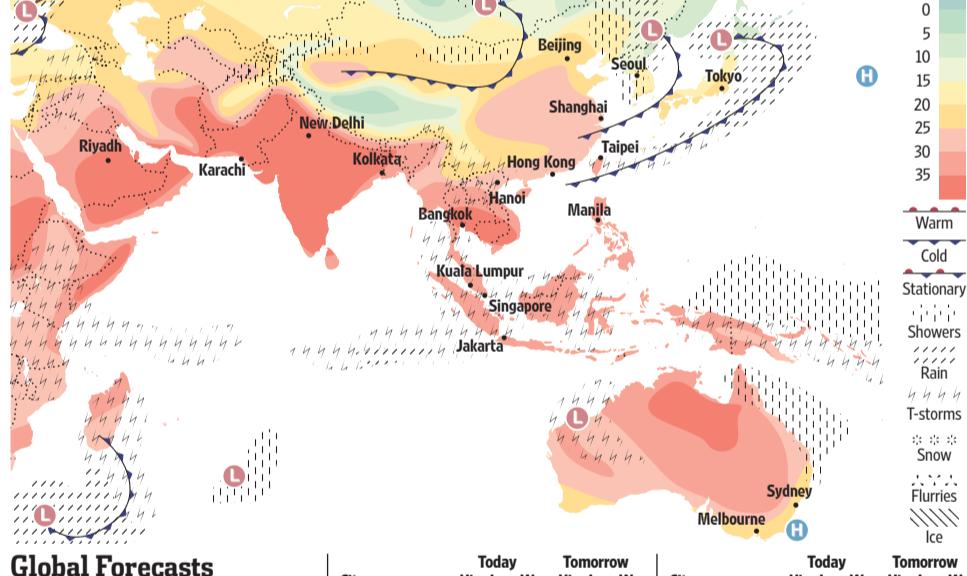
### The Cost & Gear

She paid \$6,500 for her Intense Evo 951 Gravity bike and \$2,400 for her Specialized Saffire Comp bike. "I ride all three about equally depending upon where I am riding," she says. Her full face Troy Lee Designs helmet cost \$250 and her Atlas neck brace cost \$250. She spends about \$200 a year on new gloves, elbow pads and knee pads. She likes cycling apparel from Troy Lee Designs and Fox Racing. A Mammoth Mountain Bike Park Pass retails for \$349 per season and Dr. Drake says a day pass at other parks cost around \$50. She pays \$20 per drop-in class at CorePower Yoga and prefers Lululemon yoga apparel. She pays \$35 a month for her 24 Hour Fitness membership.

### The Playlist

"When I work out I listen to the raunchiest rap music ever," she says. Kendrick Lamar, Eminem, and the rap artist Logic top her playlist.

### Weather



### Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Today Hi Lo W

Amsterdam 11 1 pc 10 1 pc

Anchorage 8 1 s 9 0 s

Athens 21 14 s 22 15 pc

Atlanta 26 16 c 28 17 pc

Bahrain 32 16 pc 26 16 s

Baltimore 21 8 pc 17 13 pc

Bangkok 36 27 c 36 27 pc

Beijing 23 7 s 22 7 c

Berlin 6 2 r 7 2 pc

Bogota 19 10 r 18 10 r

Boise 15 4 sh 18 9 pc

Boston 10 3 pc 11 7 sh

Brussels 11 1 pc 9 1 pc

Buenos Aires 21 14 c 22 14 c

Cairo 32 17 s 30 17 s

Calgary 9 1 c 14 1 pc

Caracas 30 25 pc 31 25 pc

Charlotte 23 15 t 24 16 t

Chicago 24 16 pc 18 7 t

Dallas 30 19 c 30 20 pc

Denver 27 8 pc 22 4 pc

Detroit 19 13 pc 23 10 r

Dubai 35 27 s 36 28 s

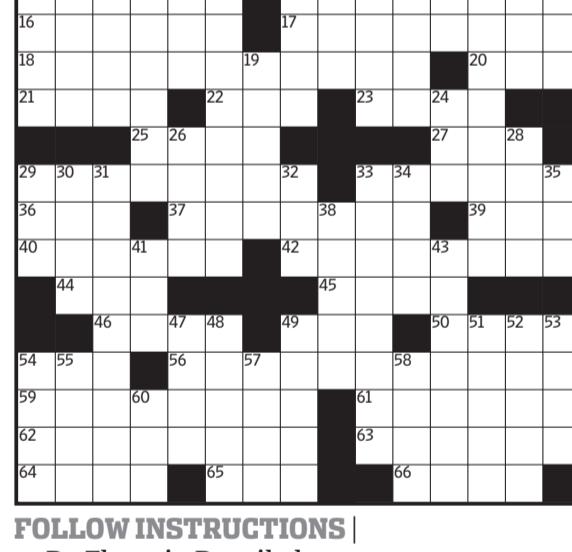
Dublin 11 5 pc 13 6 c

Edinburgh 11 4 pc 13 7 c

Frankfurt 11 0 sn 11 1 pc

### AccuWeather.com

### The WSJ Daily Crossword | Edited by Mike Shenk



### FOLLOW INSTRUCTIONS | By Zhouqin Burnikel

**Across**

1 Trio of Yule travelers

5 Helpful connections

8 "Call on me!"

12 "Honor Thy Father" author Gay

14 Reuters, for one

16 It's paid on out-of-state purchases

17 Beverage in a Japanese ceremony

18 Go to 13-Down

20 Little kid

21 Flyer on a string

22 Boring daily routine

23 Dash device

25 Aid in a scam

27 Oyster's home

29 Counts and dukes

33 Cleans

36 LAX board info

37 Fruits from a patch

39 Take the stage

40 Jigsaw puzzle makeup

42 "Ladies first!"

44 Service station buy

45 Sunrise direction, in Sonora

46 Ukraine's capital

49 Letter before epsilon

50 "As a result..."

54 Fuming

56 Go to 53-Down

59 "Heaven forbid!"

61 Stereo knob

62 "That explains everything!"

63 Tamper-resistant, in a way

64 Unit of force

65 Org. that issues nine-digit IDs

66 Hang around

### Down

1 Kenyan people

2 On guard

3 "Stop dreaming!"

4 "My word!"

5 Metal bar

6 Super Soaker brand

7 Workout byproduct

8 Totally dominate

9 Go to 27-Across

10 "Milk's Favorite Cookie"

11 American Airlines Arena team

12 Diving position

13 Polar opposites

15 Evening, in Italy

19 External

24 41-Down's network

26 Neuwirth of "Madam Secretary"

28 Art (style of the 1920s and 1930s)

29 Short rest

30 Not a copy: Abbr.

31 Go to 40-Across

32 Packers' org.

33 Divers wear them

34 At time (prearranged)

35 Disco fanatic on "The Simpsons"

38 "Sadly, it looks like..."

41 Forensic series

43 Turn tail and run

47 Unspoiled spot

48 Hawks

49 Colorful aquarium fish

51 "Se español"

52 Six-time baseball All-Star Chase

53 Ranked tournament player

54 Watch over

55 Sailor hailer

57 Foot fivesome

58 Miners dig them

60 "The Raven" writer

### Previous Puzzle's Solution

G	L	I	B	L	A	R	A	M	A	S	T	O
L	I	S	A	R	O	S	E	Z	A	N	Y	O
O	M	A	R	C	I	V	I	L	S	U	I	T
P	A	Y	R	A	I	S	E	V	E	R	N	T
A	Y	R	A	I	S	E	V	E	R	N	T	T
F	I	N	G	E	N	A	L	I	S	C	O	X
I	N	G	E	N	A	L	I	S	C	O	S	O
R	I	G	E	N	A	L	I	S	C	O		

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, April 18, 2017 | B1

Yen vs. Dollar 108.4770 ▼ 0.14% Hang Seng 24261.66 Closed

Gold 1289.90 ▲ 0.31%

WTI crude 52.68 ▼ 0.94%

10-Year JGB yield 0.005%

10-Year Treasury yield 2.232%

## Uber's Indonesia Rival Revs Up

**Go-Jek**, the Indonesian motorcycle-hailing startup backed by KKR & Co., Warburg Pincus LLC and others, is in talks with investors to raise \$1 billion, people familiar with the process said.

By Newley Purnell,  
P.R. Venkat  
and Kane Wu

The new money would give the Jakarta company added power to battle rivals **Uber Technologies** Inc. and Singapore's Grab for a lead in Southeast Asia's largest economy. The company is seeking

the new money to expand, with the first round of bids due by the end of this month, one of the people said.

Beijing's China International Capital Corp. and Zurich-based **Credit Suisse Group** AG are among the banks assisting in raising funds, according to people familiar with the matter. Representatives for Go-Jek didn't immediately respond to requests for comment.

The cash injection would give Go-Jek a pre-money valuation of about \$2 billion, the people said. A pre-money valuation refers to the value of a startup before fresh funds are

included. Go-Jek raised around \$550 million in August at an undisclosed valuation.

Transportation startups are scrambling to capture market share in Southeast Asia, which has a ride-hailing market that is taking off and could grow 18% a year to \$13.1 billion by 2025, according to estimates by Alphabet Inc.'s Google and Singapore state investment firm Temasek Holdings Pvt. Ltd.

Growth in the U.S. is slowing. The number of people who use a ride-hailing service in America will increase 7% in 2018, compared with an estimated 13% gain this year, according to re-

search firm eMarketer.

Go-Jek launched its app in 2015 and is named after the motorcycle taxis, or ojeks, that customers can order through its platform.

Gridlock on the streets in Indonesia, Southeast Asia's most populous country, makes motorcycle taxi services a popular option for customers looking to cut through lanes of cars. About 250 million people live in Indonesia.

Among Go-Jek's existing investors are DST Global, run by Russian billionaire Yuri Milner, famous for his early bets on Facebook Inc. and Twitter Inc.

Others include prominent U.S. venture-capital firm Sequoia Capital and NSI Ventures, a unit of Northstar Group, a Southeast Asian private-equity firm.

Uber, whose valuation of nearly \$68 billion makes it the world's most valuable startup, also offers motorcycle bookings in Indonesia, as does Grab, officially known as GrabTaxi Holdings Pte Ltd.

Grab, backed by investors including Japan's SoftBank Group Corp., in February said it would invest \$700 million in Indonesia over the next four years.

—Anita Rachman  
contributed to this article.

## Reversal In Lesser Markets Is Feared

BY SAUMYA VAISHAMPAYAN AND IRA IOSEBASHVILI

A crack is forming in the emerging-market resurgence.

Almost \$60 billion went into assets of developing economies during the first months of 2017, helping emerging-market stocks and currencies enjoy their best quarter in two years.

Now, worries are setting in that the buying spree has resulted in lofty valuations as geopolitical tensions escalate. Yield-seeking portfolio managers who made widespread purchases could be just as indiscriminate when it comes to selling, market watchers say. And downturns could last a long time: The MSCI Emerging Market Index fell three years straight before notching a gain in 2016.

With European elections looming and tension growing between the U.S. and North Korea, "there is elevated political risk on too many different fronts," said Thanos Bardas, a portfolio manager at Neuberger Berman. "Markets have moved up a lot. Now you can see the pendulum swinging in the other direction."

Neuberger Berman recently took profits on the Mexican peso and other emerging-market currencies, Mr. Bardas said. He intends to stay on the sidelines at least until the conclusion this month of the first round of the presidential election in France, where the likelihood of success by far-left and far-right candidates has caused jitters.

Some data justify the valuations in emerging markets: Chinese growth has steadied and Argentina appears to be slowly coming out of a recession. Global demand has buoyed exports, while higher U.S. tariffs have yet to materialize, helping boost sentiment toward trade-dependent developing economies.

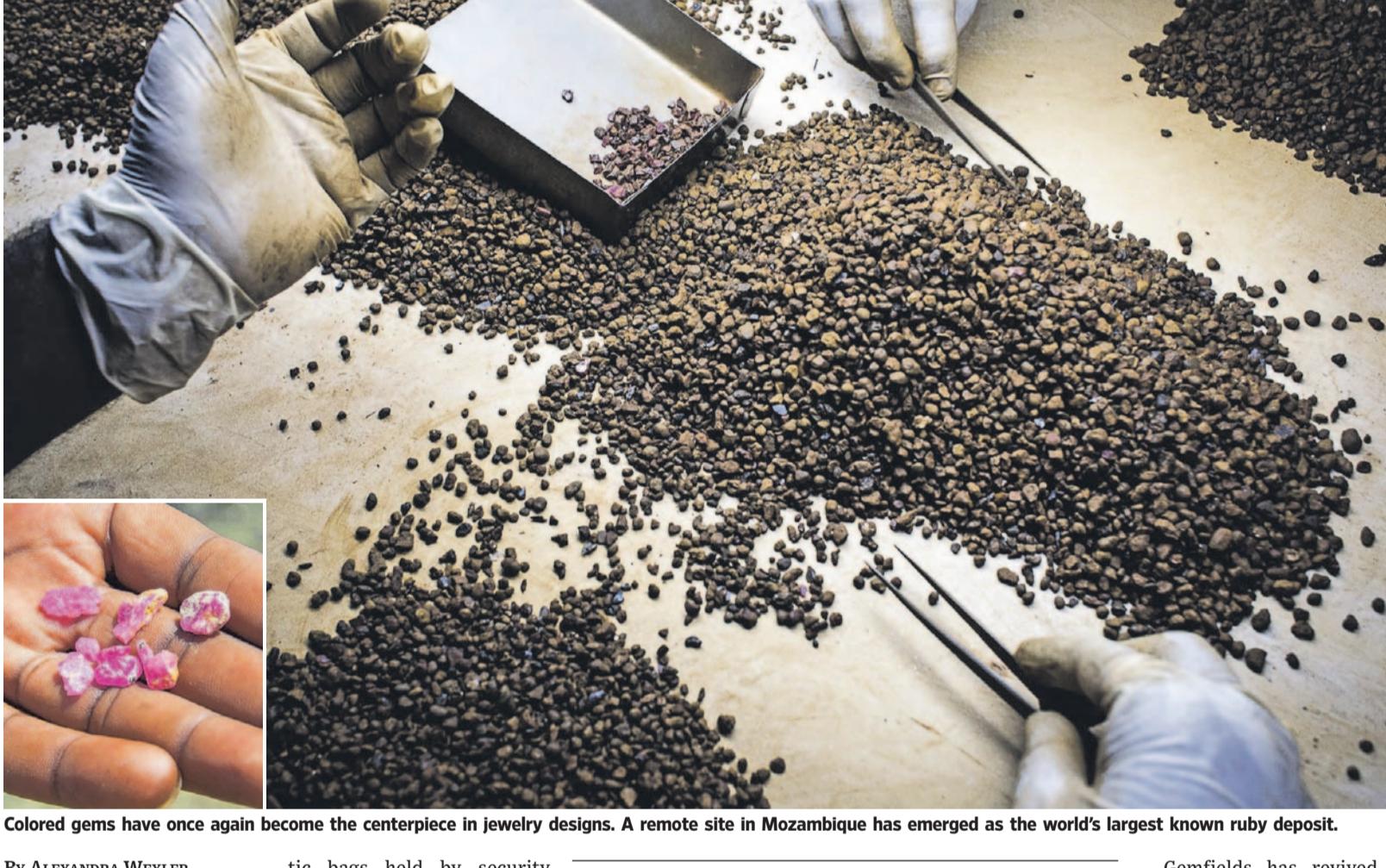
But money rushing into assets of developing nations suggests a search for yield could be trumping traditional metrics like a country's economic and political outlook. Foreign investors poured an estimated net \$29.8 billion into emerging-market stocks and bonds in March, the highest monthly total since January 2015, according to the Institute of International Finance. Nearly three-quarters of that total—\$22 billion—went into Asia.

"There's this capital coming into emerging markets and it needs to be invested somewhere," said Mark Baker, emerging markets fixed-income portfolio manager at Standard Life Investments in Hong Kong.

Please see FLOW page B2

## Gemfields Seeks to Spark Boom for Rubies

Discovery of huge trove in Mozambique has mining company betting on renewed demand for the rare, expensive gem



JOHN WESELS/AGENCE FRANCE PRESSE/GETTY IMAGES; GEMFIELDS (INSET)

Colored gems have once again become the centerpiece in jewelry designs. A remote site in Mozambique has emerged as the world's largest known ruby deposit.

By ALEXANDRA WEXLER

tic bags held by security guards.

Mr. Harebottle is betting this remote site, which has emerged as the world's largest known ruby deposit, will power a new global boom for the gem, one of the few precious stones rarer—and in some cases more expensive—than diamonds. Gemfields, which owns 75% of Montepuez, continues to ramp up production. In the second half of last year, the mine produced 5.6 million carats of ruby and parent-stone corundum, up from 2.1 million carats during the same period a year earlier.

"It's almost an embarrassment of riches," says Patrick Morton, an analyst at Mac-

Machines need only dig 10 feet into the ground at this former hunting ground in northern Mozambique to unearth millions of carats of jewels each year. Once the top layers of soil are removed, dozens of glistening stones are visible to the naked eye, and guests can fondle the gems before depositing them into plas-

tic bags held by security guards.

Mr. Harebottle is betting this remote site, which has emerged as the world's largest known ruby deposit, will power a new global boom for the gem, one of the few precious stones rarer—and in some cases more expensive—than diamonds. Gemfields, which owns 75% of Montepuez, continues to ramp up production. In the second half of last year, the mine produced 5.6 million carats of ruby and parent-stone corundum, up from 2.1 million carats during the same period a year earlier.

"It's almost an embarrassment of riches," says Patrick Morton, an analyst at Mac-

Tesla gets that valuation because it is expected to upend the auto industry while earning big profits that would bring down the multiple. But to actually earn enough profits to reduce Tesla's multiple to something within the realm of reason would require almost heroic assumptions.

First, the basics: Say Tesla's valuation should be 10 times higher than GM's and Ford's, and say Tesla's share price stays constant at about \$300.

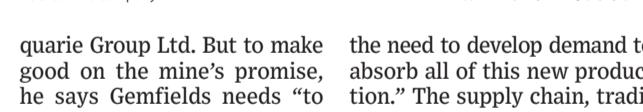
That means Tesla would need to earn \$4.29 a share in 2018, which equals \$700

Please see HEARD page B2

### Ups and Downs

In transitioning from selling emeralds to rubies, Gemfields has had to figure out the best way to bundle the red stones for sale through trial and error. Average per carat sales value at auction:

Ruby and corundum\*  
Emerald and beryl†



Note: For rough stones \*Mixed quality †Higher quality  
Source: the company

quarie Group Ltd. But to make good on the mine's promise, he says Gemfields needs "to marry the technical challenge of ramping up the mine with

the need to develop demand to absorb all of this new production." The supply chain, traditionally based in Southeast Asia, also needs an overhaul.

Gemfields has revived a playbook it used after taking control of the world's largest emerald mine in Zambia in 2009. The strategy, which has helped lift global emerald prices 14-fold since 2009, according to company sales data, includes creating a new grading and auction system, plying designers with a constant stream of stones and aggressive marketing. The company spent \$15 million in the year ended June 2016 on ad campaigns featuring Hollywood actresses like Mila Kunis and Sophie Cookson.

The push comes at a time when colored gems have once again become the centerpiece in jewelry designs, whether it

Please see RUBY page B2

Please see FLOW page B2

## Tesla Must Aim High To Justify Its Valuation

Tesla Inc. is valued as though it will soon conquer the U.S. auto market. Now, it has the small task of actually doing so.

Tesla shares have been unstoppable ahead of the Model 3 launch, having gained 40% this year. The upstart auto

maker is more valuable than Ford Motor and slightly less valuable than General Motors on a market-cap basis. The crux of the excitement is the all-electric Model 3 sedan that Tesla says will start at \$35,000. Production is scheduled to begin this summer.

Tesla now trades at 271 times projected 2018 ad-

## KPMG's Star Auditor Falls Hard

By MICHAEL RAPORT AND DAVE MICHAELS

Scott Marcello was supposed to be the man to redeem KPMG LLP's audit business. Instead, he and other top partners became the center of a scandal that tarnished the firm's reputation.

The accounting world was stunned last week when Mr. Marcello, KPMG's top audit official, was fired over a leak of confidential information. The firm said Mr. Marcello, who turns 54 this month, and four other partners were let go over the mishandling of a tip that gave the firm improper advance word about which of its audits its regulator planned to scrutinize in its annual inspections.

Mr. Marcello, a three-decade veteran at the firm, was a highly regarded and technically accomplished auditor, specializing in the intricate financial

statements of banks and insurers. He climbed the ladder at KPMG to become the Big Four accounting firm's vice chairman of audit, managing a workforce of thousands of auditors. After his 2015 promotion from national leader of the firm's financial-services prac-

tice, he faced the challenge of satisfying KPMG's regulator, the Public Company Accounting Oversight Board, which in recent years had scored KPMG's auditing performance below that of other big firms.

People who know Mr. Marcello said they were surprised such a knowledgeable auditor—someone who volunteered as a mission hospital consultant in Africa—is accused of having gotten into such a fix.

"It's a huge and disappointing thing to happen to such a fine individual," said Dennis Beresford, former chairman of the Financial Accounting Standards Board, the U.S. accounting panel, who knows Mr. Marcello from common ties to a professional organization.

Mr. Marcello declined to comment to a Wall Street Journal reporter at his Connecticut home. KPMG and the accounting board declined to

Please see KPMG page B2

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PPG TAKES OFFER TO AKZO HOLDERS

BUSINESS NEWS, B8

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## FLOW

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Long-running tensions between South African President Jacob Zuma and Finance Minister Pravin Gordhan erupted late last month, leading to the ouster of Mr. Gordhan and prompting S&P to downgrade the country's bonds to junk.

While the South African rand has tumbled 7.3% in the wake of the political crisis, the losses would likely have been worse if there wasn't an underlying demand for yield.

The South Korean won has rallied 6.2% this year, despite a slowing economy, the ouster of the nation's president, and threats of missile tests by North Korea.

South Korea has been a big destination for foreigners' funds, with around \$4.7 billion going into its stocks and \$8.3 billion into bonds in the first quarter, Australia & New Zealand Banking Group Ltd. estimates. Foreign investors who want South Korean assets must first buy the currency.

A similar story is playing out in Taiwan, where the new Taiwan dollar has advanced 6.8% against the U.S. dollar in

2017. Foreign investors sent \$6.3 billion into the nation's stocks in the first quarter, according to ANZ. The country's exports, skewed heavily to technology, grew 13.2% in March from a year earlier.

But even after taking into account global investors' desperation for yield, the money flows into South Korea and Taiwan don't entirely make sense, some analysts say.

Yields in South Korea and Taiwan are much lower than in other emerging markets and even some developed economies. Yields on the 10-year bonds in Korea and Taiwan are 2.194% and 1.03%, respectively, well below the 7.044% on 10-year debt in Indonesia and lower than the 2.237% on 10-year U.S. Treasuries.

For many investors, big yields on some emerging-market currencies aren't enough in the face of mounting uncertainty. UBS Wealth Management recently closed out bets on a basket of currencies that included the Brazilian real, Indian rupee, Russian ruble and South African rand.

"The risk-reward prospects for the trade over the next six months are now less attractive than they were six months ago," the firm said in a note.

**CORRIGENDUM**  
**Tender notice No. NMMC/B-1/334/2016-2017.**

The last date of Bid submission of tender for work of **DETAILED DESIGN CONSULTANCY FOR LONG SPAN CABLE STAY BRIDGE, PREPARATION OF TENDER DOCUMENT, SELECTION OF CONTRACTOR (ON ITEM RATE BASIS) AND PROJECT MANAGEMENT CONSULTANCY FOR 1.95 KM APPROX. OF CONNECTING MISSING LINK BETWEEN GHANSOLI AND AIROLI HAVING MANGROVES AND CREEK ON PALM BEACH ROAD, NAVI MUMBAI**, was scheduled on 15/04/2017. However, for technical reason, the last date of bid submission, tender download and tender preparation of said tender is extended up to 25/05/2017 up to 13.00 Hrs. The other terms and conditions of tender will remain same.

Kindly take a note of above changes.

City Engineer

Navi Mumbai Municipal Corporation

## AUCTION

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THE WALL STREET JOURNAL

## BUSINESS & FINANCE

# Shipyard Creditor Backs Bailout

Decision by Korean pension service sets tone for two-day meeting on rescue plan

By KWANWOO JUN

SEOUL—South Korea's National Pension Service, a major creditor of the debt-ridden Daewoo Shipbuilding & Marine Engineering Co., said it has agreed on a newly proposed bailout package for the world's second-largest shipyard.

The decision Monday by NPS, one of the world's biggest pension funds, came hours before Daewoo's creditors began a two-day meeting to decide whether to convert massive debt into equity as part of the fresh 2.9 trillion Korean won (\$2.6 billion) rescue plan, and will likely set the tone for talks that will last until Tuesday.

The shipyard could go into receivership unless its lenders agree to the bailout that requires them to convert the majority of the \$1.4 billion in unpaid bondholdings into equity and roll over the remaining debt. The pension service holds about a quarter of Daewoo's outstanding bonds and more than 40% of its 440 billion won of debt, which is due for repayment this month.



Daewoo Shipbuilding & Marine Engineering could go into receivership without a bailout package.

The NPS said its decision to go ahead with the bailout was "based on its final judgment that accepting the debt-rescheduling plan will be more favorable in enhancing the profits of the pension fund," rather than letting Daewoo go into receivership or bankruptcy.

The statement is something of a comedown for the NPS, which had earlier demanded a guarantee of full debt repayment, following weekend negotiations with Daewoo's largest shareholder, state-run Korea

Development Bank, which is leading the bailout effort.

The financial trouble at Daewoo highlights the struggles of the global shipbuilding industry as it reels from stagnating ship orders and a slowdown in China. The shipyard lost 2.7 trillion won in 2016, following a 3.3 trillion won loss a year earlier.

Korea Development Bank and Export-Import Bank of Korea unveiled the new rescue plan in March, which they said would improve Daewoo's cash flows. In 2015, they had pro-

vided a combined 4.2 trillion won in aid to the shipyard.

The latest bailout would allow Daewoo to stay afloat and fulfill about \$34 billion in orders for about 95 ships by 2020.

South Korea is home to some of the world's biggest shipyards. Since the global economic slowdown in 2008, they have been undergoing heavy overhauls as lower-cost Chinese rivals bite into profits. Shipbuilding accounts for 7% of Korea's exports and 5% of employment.

## KPMG

Continued from the prior page comment.

Details of the leak to KPMG are still unclear, as are the precise roles that Mr. Marcello and his deputy David Middendorf, who also was fired, are alleged to have played in the process. But they were aware that others at KPMG had received leaked information and "failed to report the situation in a timely manner," KPMG said in a statement April 11.

Lynne Doughtie, the firm's chairman and chief executive, said KPMG has "zero tolerance for such unethical behavior," and KPMG has said it told the accounting board about the matter as soon as top management learned of it.

The leaked information

could have given KPMG a leg up in preparing for the PCAOB's inspection, seen as a key report card on the quality of the firm's audits.

Among the Big Four accounting firms, KPMG has had the highest number of deficiencies cited by the accounting board in each of the past two years.

The leak reflects the tension between the Big Four accounting firms and the rigorous demands of the accounting board, which was created in the wake of the Enron Corp. scandal.

Some auditors have long felt stressed by the board's inspections, feeling their careers could be set back if the regulator finds problems with too many of their audits. "They are all feeling the pain and the frustration," said Bob Conway, a former KPMG partner who later ran the board's Southern

California office.

Mr. Marcello took over as KPMG's vice chair of audit after several years in which the firm's inspection results had steadily worsened. The rate of deficient audits found by the PCAOB had risen from 22% for 2010 to 54% for 2014.

Several months before Mr. Marcello's appointment, the accounting board unsealed previously confidential criticisms that the firm had failed to sufficiently evaluate information that could have contradicted its audit conclusions—a public rebuke, similar to what the regulator had done with other Big Four firms.

Mr. Middendorf, Mr. Marcello's deputy at KPMG, also was a star at the firm. He was a top auditor of KPMG clients such as Home Depot Inc., J.C. Penney Co. and Macy's Inc. before becoming national

managing partner of audit quality, where he was directly responsible for dealing with the PCAOB and making sure the firm's audits were in good shape. He also sat on a PCAOB advisory panel that counsels the board on its development of new auditing rules.

Mr. Middendorf has voiced concerns about the accounting board's inspections, calling them "an area for stress" for audit partners. "It is a reason some people leave our profession, because they just don't like that stress," Mr. Middendorf said at a May 2016 meeting of the advisory panel, according to a transcript.

Ultimately, though, inspections do "drive the right behavior," he said. Auditors "want to learn from it and get better." Mr. Middendorf didn't respond to requests for comment.

## HEARD

Continued from the prior page

million in total net income, assuming the current share count doesn't change.

For perspective, Tesla sold about 76,000 cars in 2016 and lost \$675 million on sales of \$7 billion.

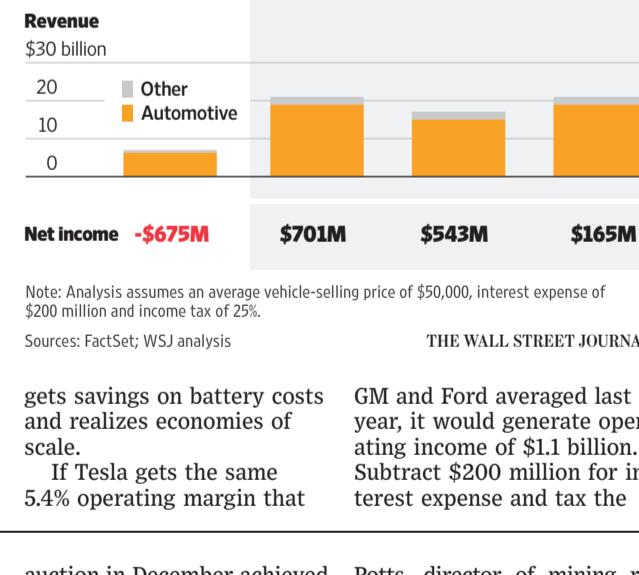
Now the assumptions: Chief Executive Officer Elon Musk forecasts Tesla can produce 500,000 cars in 2018, while analysts, a bullish lot, peg the number of deliveries at 302,000. Let's say the delivery number is 380,000. Pencil in an average selling price of \$50,000—Tesla will still be selling high-priced Model S and Model X vehicles along with the Model 3.

That scenario yields just under \$21 billion in automotive revenue. Add another \$2 billion in sales from its residential solar and energy businesses.

Tesla has never generated a positive operating margin for a full year, but assume it

## What If

Three scenarios of what net income Tesla could earn in 2018



Note: Analysis assumes an average vehicle-selling price of \$50,000, interest expense of \$200 million and income tax of 25%.

Sources: FactSet; WSJ analysis

THE WALL STREET JOURNAL

gets savings on battery costs and realizes economies of scale.

If Tesla gets the same 5.4% operating margin that

GM and Ford averaged last year, it would generate operating income of \$1.1 billion. Subtract \$200 million for interest expense and tax the

remainder at 25%: The result is \$700 million in net income, giving Tesla a multiple roughly 10 times bigger than GM and Ford.

To get there, the company would have to quintuple the number of cars it sells, earn margins equivalent to those of its highly efficient competitors and not sell new shares.

Tweak any of these variables—lower sales, lower margin, lower selling price—and Tesla doesn't come close to earning enough to get to 10 times the multiple of its bigger rivals by the end of 2018.

Valuation has never mattered before for Tesla's investors and it may not matter at the end of next year. Shareholders may be willing to wait five years instead of two for Tesla to generate big profits, or they may continue to figure that valuation doesn't matter for a game changer like Tesla.

Tesla's cars have always outshone its financials. That needs to change soon for its valuation to make sense.

## RUBY

Continued from the prior page

is Kate Middleton's sapphire engagement ring or the bright haute couture pieces that grace the red carpet. Demand for rubies, long renowned for their durability and beauty, has risen. Further fueling interest, the U.S. in October lifted an eight-year ban on imports of all rubies mined in Myanmar, the traditional and most well-known source of the gem.

"The ruby in a fine quality and a large size is still the rarest large stone that exists in the world," says Marco Hadjibay, creative director at Bayco Jewels, a high-end New York designer. "Prices have kept jumping up."

While the market for rubies remains relatively small compared with diamonds, it is growing. A Gemfields ruby

auction in December achieved an average price of \$27.79 a carat, up from \$18.43 a carat in 2014. The company said total revenue from its Montepuez operation rose to \$50.3 million in the six months to Dec. 31, accounting for

## TECHNOLOGY

WSJ.com/Tech

# Google Buys Land for a Data Center

Alphabet unit paid \$29.1 million for a 1,210-acre tract near Reno, Nevada

Tesla Inc.'s "gigafactory" has a big new neighbor: Google.

Google last week bought land stretching across 1,210 acres at a private industrial park east of Reno, Nev., for

By Jack Nicas  
in San Francisco  
and Jim Carlton  
in Reno, Nev.

\$29.1 million, according to people familiar with the deal and documents filed late Friday in Storey County, Nev.

The Alphabet Inc. unit aims eventually to build a data center at the 107,000-acre Tahoe Reno Industrial Center, according to these people. Google, which made the deal through a subsidiary called Silver Slate LLC—created in Delaware in August—has no immediate plans to build, according to a person close to the company.

The vacant desert tract near Electric Avenue is several miles south of the 3,200 acres where Tesla is building its \$5 billion battery factory, which could be the world's biggest building at 10 million square feet when it is completed in the next several years.

Once known for casinos and brothels, Reno is now attracting corporations drawn by its low costs, lenient permitting rules



A view of the Tahoe Reno Industrial Center. Google's negotiations—referred to as the 'megadeal'—were cloaked in secrecy.

that shall remain unnamed" is how one person referred to Google when asked about it. Others around town have called the sale "the megadeal."

The industrial center has been a big draw. Its top pitch man, Lance Gilman, is a cowboy-hatted real-estate broker and county politician who also owns the World Famous Mustang Ranch—as it is labeled on Google Maps—a legally licensed bordello near the edge of the park.

In 2014, Reno won a multicounty competition to become home to Tesla's battery plant. A year later, Switch said it was spending \$1 billion to build the world's largest data center at the park. Numerous deals like these since 2011 have added more than 30,000 jobs in the metropolitan area, home to about half a million people.

Google's expanse of land is so large that it could easily house more than just a data center, which has led to speculation among people connected to the deal that it may eventually be used for driverless-car research or operations. Some officials believe Alphabet will use the new land for a track where it could test its self-driving cars at highway speeds.

Nevada Gov. Brian Sandoval is sponsoring legislation that would allow self-driving cars to operate as taxis. Alphabet, Ford Motor Co. and Uber Technologies Inc. are among the companies backing the bill.

—Richard Teitelbaum  
contributed to this article.

## Cloudera Divulges IPO Price Estimate

BY AUSTEN HUFFORD

## FCC Chief in a Dilemma on Net Neutrality

By JOHN D. MCKINNON

WASHINGTON—Federal Communications Commission Chairman Ajit Pai faces a tough challenge in coming days: rolling back net-neutrality rules that he regards as an overreach, without reaching too far himself.

In the highly charged legal and political debate over how the Trump administration and Republican Congress would reverse the Obama-era rules, almost any misstep could be fatal to the effort.

Mr. Pai could announce his game plan as soon as this month to start acting at the commission's May meeting, according to some people familiar with the matter. His timing will be crucial.

If Mr. Pai moves too quickly to kill the existing rules, he risks provoking a court fight he could lose, according to some experts. But if he goes too slowly—potentially by starting over with the government's full rule-making process—Mr. Pai and his GOP allies might suffer politically as online activists' protests multiply.

The net-neutrality rules require internet-service providers such as cable and wireless firms to treat all internet traffic the same. The providers have criticized the rules as regulatory overkill, particularly because they reclassified the firms as common carriers subject to extensive government oversight. But many activists say the rules are crucial to maintaining future competition on the internet. They are generally being supported by a range of big internet firms including Facebook Inc., Alphabet Inc. unit Google and Netflix Inc.

Whichever path Mr. Pai chooses, his road is studded



Ajit Pai must decide how quickly he wants to roll back Obama-era rules governing internet traffic.

"The question is how immune Ajit is going to be to the political pressure," said Lawrence Spiwak, president of a conservative telecommunications think tank, the Phoenix Center for Advanced Legal and Economic Public Policy Studies.

The conservatives are hoping that bold action by Mr. Pai won't only reverse the existing rules, but also help push Democrats in Congress to the table to negotiate a more-permanent legislative fix.

No matter which path he eventually chooses—fast or slow—Mr. Pai might feel he has to start soon. That is because he faces at least some risk that the lone remaining Democrat on the commission, Mignon Clyburn, could leave at some point after her term expires in June. There are already two vacancies on the five-member commission, so her departure could leave the FCC without a quorum, at least until a successor is confirmed. Then it would be far more difficult for the agency to vote on major policy changes—even just initiating them.

Ms. Clyburn is eligible to continue serving through 2018, at least until a successor is confirmed by the Senate. But she isn't required to stay around after her current term expires at the end of June. At a recent Senate hearing, she suggested she wouldn't leave her seat before then, or refuse to attend meetings. But the picture after June for the two-term FCC member is less clear. She declined to comment on her plans.

Another timing factor is the possibility that the divisive debate will drag into campaign season during the 2018 congressional election cycle. Democrats already have begun a drumbeat of criticism over the net-neutrality rollback.

with possible land mines, including vacancies on his commission, a continuing court fight over current rules and a new Supreme Court justice, the coming 2018 midterm elections and the potential for the kind of widespread protests only internet activists can organize.

Even before Mr. Pai has officially announced his effort, it has stirred action from a loose coalition of internet activists that has helped spur massive protests over high-tech policy in recent years. Those protests helped lead to the sweeping net-neutrality rules the FCC adopted in 2015, and helped kill antipiracy legislation that was being pushed by the entertainment industry a few years earlier.

Mr. Pai's planned roll back of net neutrality "won't be easy if we have anything to do with it!" wrote Evan Greer, of

Fight for the Future, on a recent Reddit live event organized by activists.

Noting that the FCC has authority to change the rules rapidly, she added, "that's why it's super critical that we generate a massive public re-

tions and attend congressional town hall meetings in coming days to raise concerns about the net-neutrality rollback.

The threat of online protests appears to be adding to pressure on Mr. Pai to move quickly.

A number of legal experts believe the chairman could try to take some kind of immediate action, such as seeking a declaratory or interpretive ruling from the commission that instantly reverses the agency's core 2015 decision to reclassify internet service providers as common carriers. But some people question whether sudden action would be upheld in a court challenge.

Conservative activists are hoping Mr. Pai can persevere in the face of the all-out protests that are likely coming,

particularly in the event of a drawn-out FCC proceeding.

sponse right now—so the new FCC, and Congress, know that they can't come and try to take away these rules without a huge fight."

On the Reddit event, organizers urged grass-roots activists to start signing online peti-

tion signatures and attend congressional town hall meetings in coming days to raise concerns about the net-neutrality rollback.

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—Andrew Harrer/Bloomberg News

### BP's Well in Alaska Is Still Releasing Gas

BP PLC's out-of-control well on the North Slope of Alaska stopped leaking oil on Sunday but continues to release natural gas, according to the Alaska Department of Environmental Conservation.

Crews haven't been able to fully shut down the well, which started leaking Friday morning, because it is still too dangerous to access the site, ADEC said.

The amount of oil spilled and whether the crude affected the snow-covered tundra nearby isn't yet clear, though it appears that the crude contamination is contained within the gravel pad

site, according to a person familiar with the matter.

So far no injuries or wildlife impact have been reported, authorities said.

The London-based energy company said it couldn't quantify how much oil has spilled in the area.

BP's local subsidiary "is putting together a plan for plugging the well's top leak that resulted from the damaged pressure gauge; this plan needs to be implemented before well-killing operations can take place," ADEC said.

The company's operations in and around Prudhoe Bay account for about 55% of Alaska's oil and gas production, according to the company.

The oil giant has had several

spills and leaks in Alaska over the years.

A 2006 spill due to a corroded pipeline released almost 4,800 barrels of crude, making it the worst oil spill on the North Slope up to that point in time. A 2009 pipeline problem at a BP oil field in the state released almost 1,100 barrels of oil; that rupture and spill was a violation of the Clean Water Act, which meant BP had breached terms of its plea agreement for the 2006 accident.

In more recent years, BP has faced intense scrutiny over its role in the 2010 Deepwater Horizon disaster in the Gulf of Mexico that killed 11 workers and created the largest offshore oil spill in U.S. federal waters.

—Dan Molinski

### SNYDER'S

### CEO Retires; Snack Maker Faces Hurdles

Snyder's-Lance Inc. said Chief Executive Carl Lee Jr. retired after 12 years at the company, and the maker of Kettle Brand and Cape Cod chips braced investors for weakness going forward.

Mr. Lee will be succeeded on an interim basis by food-industry veteran Brian Driscoll until the board finds a permanent successor. The company on Monday said Mr. Driscoll is a strong candidate for the permanent role. Most recently, Mr. Driscoll worked as CEO of Diamond Foods Inc. until it was acquired by Snyder's-Lance last year.

The snack maker also warned that first-quarter earnings would be sharply below expectations. Based on its performance so far, the company expects first-quarter earnings of 13 cents to 14 cents a share on revenue of \$530 million to \$532 million, well below analysts' forecasts of 27 cents a share on \$551.2 million, according to Thomson Reuters.

The company is slated to report results on May 8.

Snyder's-Lance also lowered its 2017 outlook, forecasting earnings of \$1.05 to \$1.20 a share, compared with prior guidance of \$1.32 to \$1.42 a share. Revenue is now expected to be \$2.2 billion to \$2.25 billion from an earlier estimate of \$2.25 billion to \$2.29 billion.

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# THE FUTURE OF CITIES

B4 | Tuesday, April 18, 2017

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## The Rise of the Smart City

Officials are tapping all kinds of data to make their cities safer, healthier and more efficient, in what may be the start of a sweeping change in how cities are run

BY MICHAEL TOTTY

**CITIES HAVE A WAY TO GO BEFORE THEY CAN**  
be considered geniuses. But they're getting smart pretty fast.

In just the past few years, mayors and other officials in cities across the U.S. have begun to draw on the reams of data at their disposal—about income, burglaries, traffic, fires, illnesses, parking citations and more—to tackle many of the problems of urban life. Whether it's making it easier for residents to find parking places, or guiding health inspectors to high-risk restaurants or giving smoke alarms to the households that are most likely to suffer fatal fires, big-data technologies are beginning to transform the way cities work.

Cities have just scratched the surface in using data to improve operations, but big changes are already under way in leading smart cities, says Stephen Goldsmith, a professor of government and director of the Innovations in Government Program at the Harvard Kennedy School. "In terms of city governance, we are at one of the most consequential periods in the last century," he says.

Although cities have been using data in various forms for decades, the modern practice of civic analytics has only begun to take off in the past few years, thanks to a host of technological changes. Among them: the growth of cloud computing, which dramatically lowers the costs of storing information; new developments in machine learning, which put advanced analytical tools in the hands of city officials; the Internet of Things and the rise of inexpensive sensors that can track a vast array of information such as gunshots, traffic or air pollution; and the widespread use of smartphone apps and mobile devices that enable citizens and city workers alike to monitor problems and feed information about them back to city hall.

All this data collection raises understandable privacy concerns. Most U.S. cities have policies designed to safeguard citizen privacy and prevent the release of information that might identify any one individual.

In theory, anyway. In reality, even when publicly available data is stripped of personally identifiable information, tech-savvy users can combine it with other data sets to figure out an awful lot of information about any individual. Widespread use of sensors and video can also present privacy risks unless precautions are taken. The technology "is forcing cities to confront questions of privacy that they haven't had to confront before," says Ben Green, a fellow at

deaths in building fires in 2015, the latest year for which data is available. The presence of smoke alarms is critical in preventing these deaths; the National Fire Protection Association, a nonprofit standards group, says a working fire alarm cuts the risk of dying in a home fire in half.

New Orleans, like most U.S. cities, has a program run by its Fire Department to distribute smoke detectors. But until recently, the program relied on residents to request an alarm. After a fire in which five people—three children, their mother and grandmother—perished, the department started looking for a way to make sure that they were getting alarms into homes where they could make a difference.

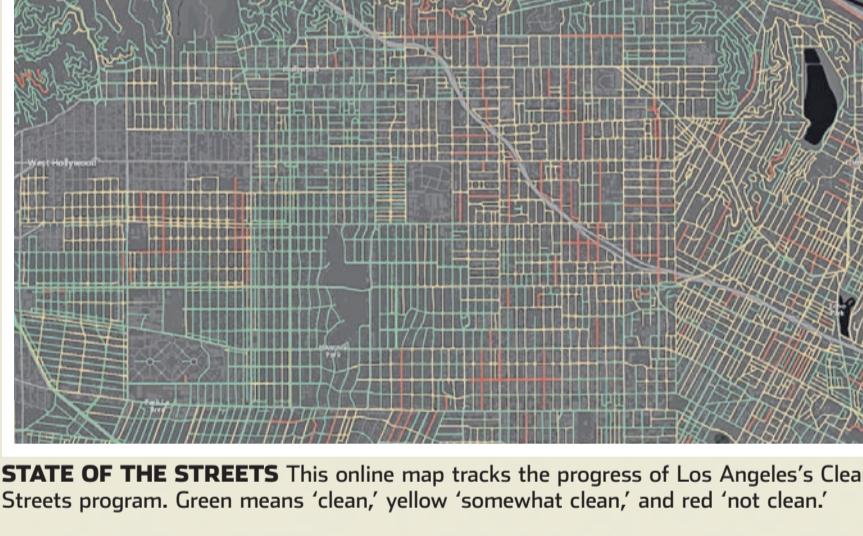
Oliver Wise, director of the city's Office of Performance and Accountability, had his data team

tap two Census Bureau surveys to identify city blocks most likely to contain homes without smoke detectors and at the greatest risk for fire fatalities—those with young children or the elderly. They then used other data to zero in on neighborhoods with a history of house fires. Using advanced machine-learning techniques, Mr. Wise's office produced a map that showed those blocks where fire deaths were most likely to occur and where the Fire Department could target its smoke-detector distribution.

Since the data program began in early 2015, the department has installed about 18,000 smoke detectors, says Tim McConnell, chief of the New Orleans Fire Department. That compares with no more than 800 detectors a year under the older program. It is too early to tell how effective it has been at preventing fire deaths, Chief McConnell says, since they are so rare. But the program did have an early, notable success.

A few months after the program began, firefighters responded to a call in Central New Orleans. Arriving, the fire crew found three families—11 people in all—huddled on the lawn. The residents had been alerted by smoke detectors recently installed under the outreach program.

"That was just one of those stories where you go, Please turn to the next page



**STATE OF THE STREETS** This online map tracks the progress of Los Angeles's Clean Streets program. Green means 'clean,' yellow 'somewhat clean,' and red 'not clean.'

CLEAN STREETS LA

### SPOTTING POTENTIAL PROBLEMS... BEFORE THEY OCCUR

Perhaps the most innovative way cities are employing data is to anticipate problems.

Consider the risk of death by fire. Although declining nationally, there still were 2,685 civilian

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Digital and aerial technology give new perspectives on old problems

#### Where Shoppers Are Headed

Warehouses are becoming the retail hub for city dwellers

#### At Luxury Stores, It Isn't Shopping, It's an Experience

To counter the internet, specialty shops try to become destinations

#### Cities See the Arts as a Beautiful Development Tool

Cultural districts build on artists

## JOURNAL REPORT | THE FUTURE OF CITIES

# When Robots Take to the Sidewalks

Startups in London and other places are testing machines to haul your stuff around the city

BY ERICA E. PHILLIPS

ON A SUNNY DAY in San Francisco's residential Potrero Hill neighborhood, a 3-foot-tall robot named Scrappy went out for a stroll.

Box-shaped, mounted on four rubber wheels and outfitted with a high-tech array of sensors and cameras, Scrappy is part of a team of robots surveying the sidewalk landscape for **Marble**, a robotics startup in San Francisco. For now, the robots are taking their walks with Marble executives or employees. Within a year, the company aims to have the majority of the city's sidewalks three-dimensionally mapped—allowing its small fleet to autonomously navigate the city, carrying everything from groceries to takeout, dry-cleaning and prescriptions to and from homes and businesses.

As Scrappy rolled around Jackson Playground, most of the park's patrons and passersby—human and canine—ignored the humble robot. But Kathy Piziali was intrigued.

"We've never run into a real robot before," said Ms. Piziali, who was taking her 3-year-old grandson to the playground.

Marble Chief Executive Matt Delaney imagines a future where few people will be able

to say that: Delivery robots will eliminate the need for many of the cars, trucks and vans on streets today, allowing cities to carve out much more space for pedestrians—many of whom will have their own personal robots in tow to carry things for them.

That vision might not fully come about for another generation or so, Mr. Delaney says, but he—like other entrepreneurs testing sidewalk robots in cities around the world—believes robots will be a common sight on city streets within a decade.

"This is what we've all been seeing in the science-fiction movies we watched growing up," says Siddharth Vanchinathan, co-founder of **Propel-land**, a San Francisco-based technology and design firm.

### Meeting the public

Other robot makers include **Dispatch**, also based in the San Francisco Bay Area; **Starship Technologies**, with headquarters in London and engineering based in Estonia; and Piaggio Fast Forward, a division of Italy's **Piaggio** SpA, known as the maker of Vespa scooters. Generally the companies say they plan to offer their robots for hire, rather than selling them outright, and for now they decline to disclose what



Starship Technologies has tested its delivery robot in more than 50 cities.

they would cost to purchase.

The robots are all essentially caddies on wheels, roughly the size of a laundry basket or two, big enough to carry small parcels and small enough to allow pedestrians to walk by. With tracking systems and cameras on all sides, they wouldn't necessarily be a target for thieves, developers say, because it would immediately be clear who took them and where they were headed.

The early designs are made for short trips carrying packages weighing up to 30 pounds or so. And while the robots aren't anything like humanoid, there's something undeniably captivating about them—particularly at first sight.

During a lunch-hour test run in Redwood City, Calif., last month, a Starship robot turned dozens of heads in a span of less than four blocks. Several people snapped pictures with their cellphones, and a few spoke directly to the robot.

"Lookin' good!" one young man said as he walked by.

"Come back here, you!" another man joked as the robot sallied forth at about 4 miles an hour.

But if you ask Henry Harris-Burland, marketing chief for Starship, that kind of attention is becoming increasingly rare. The firm has tested its robots in more than 50 cities. In one recent London outing on a busy day, Mr. Harris-Burland

says, "60% to 70% of people completely ignored the robot—I was quite offended!"

### Kinks and skeptics

Developers and engineers say there might be a few kinks to work through as cities figure out legal parameters for robot use and robot makers tackle the many challenges city streets present. Programmers are still finessing the complexities of crossing the street, for example.

For now, many of the delivery robots can't enter buildings—dealing with the many types and sizes of doors and how to get through them is too big a challenge at this point. So one might see small crowds of

them waiting outside offices or apartment complexes at busy times of day. One idea developers have discussed is a separate elevator for robots in the highest-density buildings, but that's out of their hands.

There are skeptics. "I'm not sure what pressing problem these robots are supposed to solve for us," says Michael Manville, an urban-planning professor at the University of California, Los Angeles. "Do we seriously have a problem where people can't move stuff down sidewalks?" If the purpose is to ease traffic congestion, Mr. Manville says, cities could better accomplish that by charging for the use of certain busy roads, improving bicycle lanes, enacting a gas tax, or all of the above.

"I hate to think that excitement over what this technology could do would displace energy that could be used to employ existing and proven, albeit less exciting, ways to improve our cities," he says.

But developers are pressing ahead. Piaggio has several tests planned beginning later this year. Starship has parcel and takeout-delivery pilot programs going in several cities. And last week Marble announced the launch of a food-delivery partnership with Yelp's Eat24 delivery service in San Francisco.

"The thing we can't wait for is for it to be kind of commonplace," Mr. Delaney says. "It'd be an easier world if everything was just robots."

**Ms. Phillips** is a Wall Street Journal reporter in Los Angeles. She can be reached at [erica.phillips@wsj.com](mailto:erica.phillips@wsj.com).

*Continued from the prior page*  
"This works," Chief McConnell says. "For us, it's a game changer."

Predictive analytics have also been used to improve restaurant health inspections in Chicago. The Department of Public Health relies on about three dozen inspectors to check for possible violations at more than 15,000 food establishments across the city. It needed a better way to prioritize inspections to make sure that places with potential critical violations—those that carry the greatest risk for the spread of food-borne illness—were examined before someone actually became sick.

The data team in the city's Department of Innovation and Technology developed an algorithm that looked at 11 variables, including whether the restaurant had previous violations, how long it has been in business (the longer, the better), the weather (violations are more likely when it's hot), even stats about nearby burglaries (which tells something about the neighborhood, though analysts aren't sure what).

With the tool, the health department could identify establishments that were most likely to have problems and move them up the list for inspection. After the algorithm went into use in 2015, a follow-up analysis found that inspectors were visiting restaurants with possible critical violations seven days sooner than before. Since then, its use has resulted in a 15% rise in the number of critical violations found, though the number of illness complaints—an imperfect measure of violations—has been flat.

### SENSORS ON EVERYTHING

Just as individuals are flocking to Fitbits and other wearables to monitor their health, cities, too, are turning to sensors to track their own vital signs. Through this Internet of Things, sensor-equipped water pipes can identify leaks, electric meters can track power use, and parking meters can automatically flag violations.

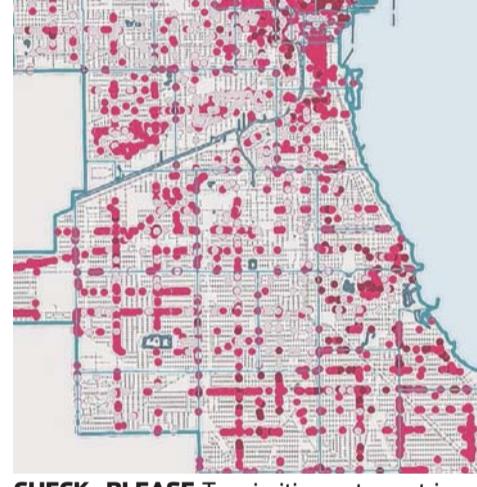
As part of a smart-city initiative, Kansas City, Mo., has installed computer-equipped sensors on streetlights along a 2.2-mile light-rail line that opened in March of last year. The city uses video from the sensors to gather information about traffic and available street parking along the corridor. The data is then made available on a public website that shows the location of streetcars, areas where traffic is moving slowly, and locations with open parking spots. It also provides an hourly traffic count in the corridor for the past day.

The sensors can even count foot traffic, which could assist entrepreneurs looking to open a new coffee shop or retail outlet, and help city officials estimate the size of crowds, which is useful in responding to public disturbances or in assigning cleanup crews after events like the city's 2015 World Series championship parade. Their ability to detect motion also can be used to adjust the LED streetlights so that they dim if no one is around and automatically brighten if cars or pedestrians pass by. The goal is to use data to "improve our efficiency of service and ascertain what services we ought to be providing," says Bob Bennett, Kansas City's chief innovation officer.

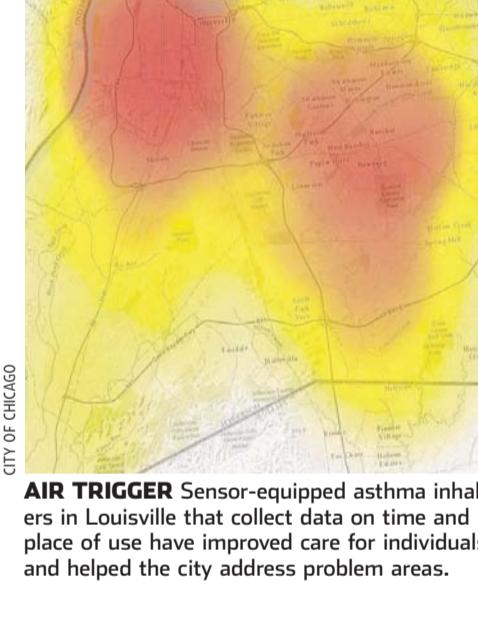
Cities are also putting sensors in the hands of citizens. In Louisville, Ky., a coalition of public, private and philanthropic organizations has provided more than 1,000 sensor-equipped inhalers to asthma sufferers to map where in the city poor air quality is triggering breathing problems. The tiny sensors, from Propeller Health, a Madison, Wis., medical-device company, have built-in GPS that collects time and location data with each puff of the inhaler.

The city is still completing its analysis of the data, but early findings were impressive, says Grace Simrall, Louisville's chief of civic innovation. For one thing, patients in the program saw measurable improvement, in part by

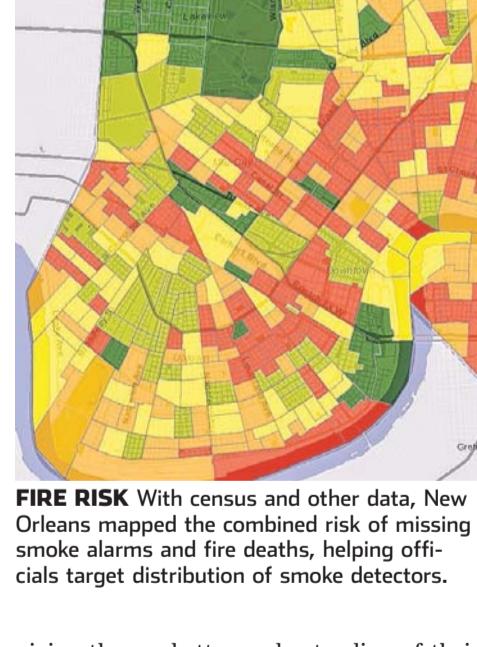
# The Rise of the Smart City



**CHECK, PLEASE** To prioritize restaurant inspections, Chicago developed an algorithm to identify eateries most likely to have violations. The darker the pink, the higher the likelihood.



**AIR TRIGGER** Sensor-equipped asthma inhalers in Louisville that collect data on time and place of use have improved care for individuals and helped the city address problem areas.



**FIRE RISK** With census and other data, New Orleans mapped the combined risk of missing smoke alarms and fire deaths, helping officials target distribution of smoke detectors.



**PARK HERE** In Kansas City, Mo., sensors on streetlights along a new light-rail line gather information about traffic and available parking that the public can view online.

giving them a better understanding of their disease, and their physicians more information to devise treatment plans. And as expected, the data made it possible to show clusters of inhaler use and link it with air pollution.

In one case, sensor data spotlighted a congested road on the east side of town where inhaler use was three times as high as in other parts of the city. In response, the city planted a belt of trees separating the road from a nearby residential neighborhood; the plantings have resulted in a 60% reduction in particulate matter (which can aggravate breathing problems) behind the green belt.

### CITIZENS AS DATA COLLECTORS

Using the public as data collectors isn't new—it's the idea behind 911 and 311 systems. But smartphone apps, in the hands of residents

and city workers, give cities new and more powerful ways to expand their data-collection efforts.

In Mobile, Ala., building-code inspectors armed with smartphones and Facebook Inc.'s Instagram photo-sharing app were able to inventory the city's 1,200 blighted properties in just eight days—a task that enforcement officers had previously considered impossible with the older paper-based systems of tracking blight. With Instagram, inspectors could snap a photo of a property and have it appear on a map, showing officials where dilapidated, abandoned or other problem properties are clustered.

The inventory was just the first step. Mobile's two-year-old Innovation Team, funded with a grant from Bloomberg Philanthropies, cross-referenced the data with other available property information—tax records, landmark status, out-of-state ownership—to compile a "blight index," a master profile of every prob-

lem property in the city. This made it possible to identify which property owners might need assistance in rehabbing their properties and which ones to cite for code violations. The city is wrapping up a second survey of blighted properties to measure the net change over the past year, says Jeff Carter, Innovation Team's executive director. "Instagram was phase one, and we would never have made it to phase two without it," Mr. Carter says.

Mobile data collection is also helping Los Angeles to clean up city streets. Teams from the city sanitation department use video and smartphones to document illegal dumping, abandoned bulky items and other trash problems. The teams can use an app to report problems needing immediate attention, but what was really noteworthy—especially for a city the size of L.A.—was that they were able to view and grade all 22,000 miles of the city's streets and alleyways.

The result has been to give officials and the public a better picture of garbage-plagued areas that can be targeted under Mayor Eric Garcetti's Clean Streets program. Data collected by the mobile teams is compiled in a detailed map of the city, with each street segment rated as being clean, somewhat clean and not clean.

The city publishes the map online so that anyone can get a color-coded view of how streets rank for cleanliness.

The program, which recently finished its first full year, has resulted in an 80% reduction in the number of areas scored "not clean," says Lilian Coral, Los Angeles's chief data officer.

The new data-driven approach not only has made it possible to better identify problem areas, Ms. Coral says, but it also has helped to reduce disparities in the city's cleanup efforts, which previously depended mainly on complaints to identify locations needing attention.

In Boston, meanwhile, the city has joined with Waze, a navigation app from Google that enables drivers to share traffic and road conditions in real time.

The Boston traffic-management center uses Waze data to supplement live feeds from its network of traffic cameras and sensors, getting a more detailed picture of what's happening on city streets. Messages from Waze users can alert the center to traffic problems—a double-parked truck or a fender-bender—as soon as they develop, allowing officials to respond more quickly.

Waze data also has helped the city to run low-cost experiments on possible traffic changes. For instance, to test how to best enforce "don't block the box" at congested intersections, the center took more than 20 problem intersections and assigned each one either a changing message sign, a police officer or no intervention at all. Using Waze data, analysts would then see which enforcement approach was most effective at reducing congestion. As it turns out, Waze's traffic-jam data didn't show that either approach made much difference in reducing congestion (which may reinforce the view of those who believe little can be done to eliminate traffic headaches).

The partnership, one of 250 that Waze has signed with cities around the world, also enables the city to feed street-closure and similar information into the Waze app, making it easier for drivers to reroute trips before they get stuck in traffic.

"When residents see a problem, sometimes their reaction is to call us, but more these days their instinct is to report it through an app like Waze or Yelp," says Andrew Therriault, Boston's chief data officer. "To be as responsive as possible to the public's needs, we need to listen to their input through whichever medium they choose to share it."

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# Flying Taxis? A Hyperloop? Dubai Is Thinking Big

The city has lofty goals for being the innovative transportation city of tomorrow



BY NICOLAS PARASIE

DUBAI—Transportation authorities here in the largest city in the United Arab Emirates are working on a novel solution for businesspeople stuck in traffic jams: flying, driverless drone taxis that will swoop in and swiftly take them to their destinations.

Dubai is looking at approving use of an autonomous drone that will carry one passenger short distances. The battery-powered flying taxi—built by Chinese drone maker EHANG Inc.—could be available for booking through an app as soon as this year, depending on how tests go, Dubai's transportation authority says.

The drone taxi has space for one person and a suitcase only. It flies typically at around 60 miles an hour and is linked to a control center on the ground. In case of emergency, the drone will land immediately in the nearest safe space. Dubai's authorities say that they have already examined the drone prototype and that it would be controlled through 4G mobile internet.

"Eventually, the drone will

be the method of transport for human beings," says Mohamed al-Gergawi, the United Arab Emirates minister of cabinet affairs and the future. "Science fiction is going to happen," he says.

## Testing ground

The drone taxi is part of an ambitious effort by Dubai to be on the cutting edge of new transportation technologies, from passenger drones to a transit system that in theory could travel near the speed of sound. The goal is both to improve connectivity and boost the emirate's growing reputation as a global trade and tourism hub. As Persian Gulf countries facing lower oil revenues struggle to diversify their economies, Dubai hopes to strengthen its credentials as the region's center for finance, tourism and transportation.

"You cannot resist the changes that are going to happen in the future," Mr. Gergawi says. "Either you move and create the future, or it will be imposed on you."

The city already has the Burj Khalifa, the world's tallest building; palm-shaped, artificial islands off its coast; and,



Two Dubai transportation visions:  
A Hyperloop from the city to Abu Dhabi, and a flying drone taxi.

HYPERLOOP ONE  
EHANG

more recently, a canal that meanders under the city's main highway. It is constructing the world's biggest airport and has started work on a new tower that will exceed the Burj Khalifa in height. The drive to attract transportation innovators may represent a new stage in the emirate's push to grab part of the future for itself.

"There's a transition in Dubai from being consumers of innovation to be producers of innovation," says Hazem Galal, a partner at PwC and the global leader of its consulting business for cities and local governments.

Besides low taxes and an enviable location between East and West, Dubai offers tech companies a business-friendly environment where red tape is limited and regulations can be easily modified for prototypes.

"We decided that we are going to be the world's largest lab," says Mr. Gergawi.

In addition to drone taxis, the emirate plans to test self-driving vehicles. Tesla Inc., whose chief executive, Elon Musk, is a key backer of autonomous technology, launched its electric cars in Dubai earlier this year. Dubai's ruler, Sheikh Mohammed bin Rashid al-Maktoum, has set a target of making a quarter of domestic transport trips smart and driverless by 2030, which could generate \$6 billion a year in savings and economic benefits, Dubai officials say.

Even bigger in scale is the Hyperloop, another vision of Mr. Musk's. Dubai last year announced a deal with Hyperloop One Inc., a company developing Hyperloop technology, to explore linking Dubai with Abu

Dhabi in what would be a 12-minute ride averaging 375 mph in pods through low-pressure tubes. Currently the roughly 75-mile trip takes more than an hour by car. Every city in the Gulf region could eventually be reached in less than an hour if a full network is eventually rolled out, Hyperloop One executives say.

"It is an emirate that has a reputation for not only dreaming big but actually making things happen," says Rob Lloyd, chief executive of Hyperloop One. In a sign of Dubai's support for the Hyperloop project, its government-controlled global ports operator, DP World, invested \$50 million in Hyperloop One.

The Hyperloop project is still years away from transporting its first passengers. The company is working with

Dubai's Roads and Transport Authority to explore potential routes and how to integrate it with the emirate's existing transportation infrastructure, which includes mega-airports, eight-lane highways, a metro and tram system. Costs and financing sources are also still under discussion.

Mr. Lloyd says the Hyperloop—a prototype of which is now being tested in the Nevada desert—should be able to endure the Gulf region's hot summer temperatures and sandy conditions, playing down any early concerns about the technology's implementation in the region.

As a center of innovation, though, Dubai still lags behind places such as Silicon Valley, London and Singapore, says Mr. Galal of PwC. Indeed, Dubai's pursuit of technology innovations has at times been born out of necessity, to resolve some of the problems it faces. The city has undergone a drastic transformation in the past few decades as its economy and population boomed. But that growth has also coincided with greater traffic congestion and air pollution.

## Fanfare and finance

Ambitious plans have also hit snags. Some projects announced to much fanfare, such as the world's largest mall and another set of artificial islands, have suffered delays or were stalled in the absence of financing. A proposed Persian Gulf-wide railway project has been put on hold as well.

In neighboring Abu Dhabi, Masdar City was designed to become the world's first carbon-neutral city. Plans there also called for a driverless transportation system. The project suffered many delays and has yet to be completed.

Still, Mr. Lloyd of Hyperloop says that Dubai has a good chance of becoming the first location where the Hyperloop will be introduced, and that it will help toward achieving the emirate's goals.

Says Mr. Lloyd, "No one wants to build a project that is an amusement ride."

**Mr. Parasie is a reporter for The Wall Street Journal in Dubai. He can be reached at nicolas.parasie@wsj.com.**

# Cities See the Power of Good Design for Utility Structures

As hiding eyesores gets harder, there's more need to get creative with utilitarian facilities and integrate them with their surroundings

BY BARBARA SADICK

UTILITY AND public-works structures in cities traditionally have a pretty uniform reputation: They're ugly. But a new generation of projects are being designed to weave infrastructure into cities' social fabric, offering amenities and standing as works of public art.

As cities become more densely populated and land becomes scarcer, it's harder to hide eyesores. So there's more impetus to get creative with utilitarian facilities and integrate them with public spaces and neighborhoods.

"There's not only less space available as old industrial edges of cities become redeveloped, but there's also more of an expectation that infrastructure projects...contribute to a better public realm experience through their design," says Marie Law Adams, principal architect in the Boston firm Landing Studio and a lecturer in the department of urban studies at the Massachusetts Institute of Technology.

Here's a look at some of the new projects.



The Denny Substation in Seattle will encourage street life.



New York's Spring Street Salt Shed looks like a salt crystal.

slope inward, allowing more sunlight to reach the surrounding gardens and open spaces.

To encourage street life, the ground level will have retail space, and the site will have parking for food trucks and outdoor spaces for eating.

NBBJ in Seattle was hired in 2012 by Seattle City Light, a publicly owned utility, to build the substation. Currently under construction, the facility is scheduled to be fully operational next year.

**Spring Street Salt Shed**  
New York

Salt sheds are highly utilitarian structures. This one was built to house as much as 5,000 tons of salt to be used on the city's streets.



At Sherbourne Common in Toronto, colorful cascades help aerate storm water.



Copenhill Waste to Energy Plant and ski slope, Copenhagen.

**Sherbourne Common Stormwater Treatment Facility**  
Toronto

This project transformed 2,000 acres of waterfront brownfield into public recreational space, integrating a storm-water treatment facility into a public park.

Water is filtered underground, then flows into a facility beneath a park pavilion for a disinfecting treatment from ultraviolet light. Next stop is three "light showers" created by Jill Anholt, a Vancouver artist, where cascades of water are aerated as they tumble down 30-foot-high stainless-steel mesh curtains.

Before the water heads into Lake Ontario, it passes through a water play area, with computer-controlled water jets that children use during the summer. In the winter, the same space becomes an ice-skating rink.

Sherbourne Common was designed by Phillips Farevaag Smalleberg in Vancouver.

**Ms. Sadick is a writer in New York. Email her at reports@wsj.com.**

Unlike most power substations, which wall themselves off from the surrounding neighborhood, Denny substation will invite passersby to interact with it.

A walkway loop accessible to the public will be 16 feet above the substation's ground level, overlooking Denny Way, city traffic, the Seattle skyline, a landscaped terrace and a dog park. People will be able to peer through portholes in parts of the substation's walls to see its inner workings. The glass and metal walls will

but the design, by Dattner Architects with WXY architecture and urban design, has been widely acclaimed as a building that enhances its Hudson Square neighborhood along the Hudson River in lower Manhattan.

Designed to look like a salt crystal, the structure has a tapered base that allows more space for pedestrians at street level. The facade complements an art deco Holland Tunnel vent shaft nearby.

The salt shed is surrounded by beds of laminated structural blue-green glass, like a pool filling the space between the sidewalk and the shed's overhanging walls. Day and night, light playing on the glass creates a sense of depth and reflects into the faceted walls of the shed.

rooftop will hold one of the world's largest year-round artificial ski slopes. The elevator to the top of the slope will give passengers a view of the plant's operations, and an observation deck will offer an unobstructed view of the surrounding area. For summertime use, the roof will have green forest areas and a hiking trail accessible from the bottom of the slope.

Designed by the Bjarke Ingels Group, Copenhill is located outside the center of Copenhagen in an industrial area that's evolving into a mix of uses. Construction began in 2013, with project completion expected by early next year.

## JOURNAL REPORT | THE FUTURE OF CITIES

# I Come From the Future

For Vancouver residents, seeing their city double as the favorite sci-fi setting for TV and film can be disorienting

BY ALEXANDRA SAMUEL

I'VE SEEN THE FUTURE, and it looks a lot like the view from my office.

That's because I live and work in Vancouver, British Columbia, the city Hollywood uses when it wants to peek a few decades (or centuries) ahead. When you watch a futuristic TV show like "Battlestar Galactica" or "Falling Skies," it was probably filmed in Vancouver. The same goes for futuristic movies like "Elysium" or "Tomorrowland."

You've probably seen the city saved by superheroes ("The Flash"), or read about it surviving climate change by virtue of its uniquely fortunate location ("The Water Knife"). Or maybe you've watched it meet a far less appealing fate—like being dominated by Nazis ("The Man in the High Castle") or destroyed by outlandish natural disasters ("2012").

So what's it like living in the future? Let's just say I feel like a real-life time traveler, living in 2017 but walking streets regularly cast as 2028 ("RoboCop"), 2067 ("Continuum") or 2166 ("Legends of Tomorrow"). The stores I shop in, the streets I drive, the performances I attend: They are all places I've seen filled with aliens, zombies or superheroes. Living on North America's favorite sci-fi set makes the future

seem nearer, and the fantastical seem plausible. It adds up to a very unreal reality.

### Starting with X

Vancouver's current status as the home of sci-fi traces back to "The X-Files," which began filming here in the early 1990s, drawn by the city's abundant urban forests. The show helped train a local filmmaking industry with the expertise to pull off special effects, an expertise that deepened with the launch of "Stargate SG-1," a sci-fi show that ultimately grew into a three-series franchise.

The city's diverse landscapes and cityscapes helped solidify its popularity as a filming location. Its skyline of sleek glass towers can double as Hong Kong ("Arrow") or Japan ("Fantastic Four: Rise of the Silver Surfer"). When producers need a historic flashback, they can drop their time travelers into the historic buildings and alleys of Gastown and the Downtown Eastside.

The locations aren't the only appeal. The Canadian dollar has mostly been much lower than the U.S. dollar in recent decades, making Vancouver-based shoots a relative bargain. And policy makers have sweetened the deal with tax incentives.

In 2016, the city played host to the shoots of 47 different TV series,

according to CreativeBC, the government agency tasked with fostering British Columbia's film and TV industry. Of those, 27 were sci-fi, superhero, supernatural or fantasy shows—all genres that get audiences to suspend their disbelief and commit to an alternative reality.

All that fantasy in one city can make for a surreal experience. It gets tricky to navigate your own town once you forget which local buildings actually exist, and which are computer-generated imaginings you've seen on TV. Try remembering where you parked your car when you have seen this parking garage in five different futures. And if you think getting stuck in traffic feels annoying in a regular city, imagine crawling through the same streets you watched the Flash zip through the night before.

### Apocalypse when?

Sometimes living amid this much sci-fi and supernatural action can be downright disturbing. Our company's first offices felt vaguely menacing, because "Dark Angel" had filmed all around us: I was used to seeing people snatched up from these very alleys for genetic experiments. When I walk past my husband's old office building I envision psychic super-gorillas (thank you, "Flash"), and when I go to the

butcher I picture zombies eating brains in the backroom (thank you, "iZombie").

Cohabiting with the ever-present shadow of the future can provoke thoughts that are less spooky and more weighty. Thanks to the nature of contemporary science fiction, most of it dystopian, we Vancouverites are challenged not only to consider what the future may hold, but also what we should do to address it.

Take the common sci-fi expectation that we are heading toward authoritarianism. Vancouver sees a lot of shows and movies based on this premise, many of them shot in or around buildings designed by local (and world-renowned) architect Arthur Erickson. The sleek lines of his modernist, concrete buildings clearly appeal to location scouts looking for iron-fisted settings. Erickson buildings have appeared as the base of a supervillain turned global dictator ("Legends of Tomorrow"), American Nazi headquarters ("The Man in the High Castle") and a futuristic prison run by androids ("Battlestar Galactica").

Once you see your daily landscape slip into fascism, even on screen, that dreaded future no longer feels so unimaginable—nor the security guard at the front door so benign. Indeed, since TV's dystopian functionaries are all played by local talent, a request delivered in a Canadian accent now sounds to me like it's backed by an implicit "...or we'll be taking you and your family somewhere."

There's a similar creepiness that comes from immersion in the possible end of the world. We've seen the end of the world unfold in these very streets by solar flare in "2012," "po-

lar shift" in "Absolute Zero" and alien nanobots in "The Day the Earth Stood Still."

Given the city's unique role, it's tempting to mine Vancouver sci-fi for clues about North America's future. Those clues point in very different directions, however. One future is suggested by the city we see on the screen. It's a future ruled by corporations from faceless, imposing towers; a future in which the technologies we create turn against us; a future in which genetic tinkering defines the very meaning of human.

But the fact that North America has pinned its fictional future on Vancouver suggests a more hopeful possibility. The abundant forests that first attracted "The X-Files" reflect a city in which the natural world is never far away, and urban encroachment is allowed to go only so far; a city in which quality of life and sustainability take precedence over material growth.

If it seems hard to reconcile these two futures, well, you haven't been watching enough Vancouver-made sci-fi. Think of them as alternative universes (as in "Sliders" or "The Flash"), alternative timelines ("Eureka") or alternative futures ("Legends of Tomorrow").

North America can travel into either of these futures, and if we seem to be heading too far down the darker path, we can always rewind and reset the timeline. All it takes is some ingenuity, a time machine and a filming permit.

**Ms. Samuel** is a technology researcher and the author of "Work Smarter With Social Media." Email her at [reports@wsj.com](mailto:reports@wsj.com).

## CITY OF TOMORROW

| Some of the settings played by Vancouver-area locations in futuristic television shows and movies (TV shows except as noted)



**1** CHAN CENTRE FOR THE PERFORMING ARTS  
*LUCIFER* (2015)  
Supernatural auction house



**2** U.B.C. LEON AND THEA KOERNER U. CENTRE  
*DC'S LEGENDS OF TOMORROW* (2016)  
Time Council



**3** CONTINUUM (2012)  
Restaurant of the future

**4** THE DAY THE EARTH STOOD STILL (MOVIE, 2008)  
Command Center



**5** H.R. MACMILLAN SPACE CENTRE  
*TOMORROWLAND* (MOVIE, 2015)  
Hall of Invention

**6** DC'S LEGENDS OF TOMORROW (2016)  
Hub City University

**7** EUREKA (2006)  
Galaxy Camp



**8** MACMILLAN BLOEDEL BLDG.  
*X-MEN: THE LAST STAND* (MOVIE, 2006)  
Department of Mutant Affairs



**9** THE MAN IN THE HIGH CASTLE (2015)  
Nazi headquarters

**10** CONTINUUM (2012)  
Time-traveler target



**5** MARINE BUILDING  
*THE FANTASTIC FOUR* (MOVIE, 2005)  
Superhero lab

*THE FLASH* (2014) Bank

*TIMELESS* (2016) Hotel

*TIMECOP* (MOVIE, 1994)  
Time Enforcement Commission



**11** DARK ANGEL (2000)  
Ambushes

**12** CONTINUUM (2012)  
Time-traveler vs. time-traveler battle

**13** iZOMBIE (2015)  
Drug-fueled run



**14** QUADRANGLE, SIMON FRASER U.  
*STARGATE SG-1* (1997) The planet Tollana

**15** BATTLESTAR GALACTICA (2004)  
Delphi Museum of Colonial History

Note: Years are when series and films debuted; they may not be when locations appeared in series.

Source: MovieMaps.org THE WALL STREET JOURNAL.

## Pop-Up Homes Offer Fast Way to House Refugees in Germany

BY NINA ADAM

FRANKFURT—Germany has taken in more than one million migrants from the Middle East, Africa and Asia who need affordable places to live, without being forced into segregated spaces that can breed isolation and violence.

Now urban planners in Germany's financial hub are offering a solution: the home.

Starting in 2016, low-rise, modular homes—sponsored by the city of Frankfurt—have begun to pop up in unused building plots around the city. They can be put up much more quickly and cheaply than regular housing, and offer a more comfortable, appealing experience than the shipping-container homes often used to house refugees and asylum seekers.

Homies—a nickname for a wide range of pop-up buildings—have an open design, use solar panels to produce enough energy to be self-sufficient, and residents are encouraged to grow herbs and vegetables in the adjoining patios.

Marion Schmitz-Stadtfeld, a senior official at NH, a large public-housing corporation in the Frankfurt region, says pop-up housing can help refugees get out of mass accommodation on the town fringes and join existing neighborhoods in the city center, where

there are schools, shops and workplaces.

"We wanted to get away from residential segregation and create a culture of welcome," she says.

### Easing tensions

Pop-up housing won't solve Europe's migrant-housing problem, nor is it meant to serve as long-term accommodation, because people are meant to stay there a while and then move on. But some urban planners say it can help ease the crunch in affordable city housing and deal with fluctuating refugee numbers, like the abrupt influx in 2015.

Germany has accepted the majority of asylum seekers who have entered the European Union in the recent past—most of them arriving in 2015 and early 2016. The new arrivals from the Middle East, Africa and Asia often end up in metropolitan areas, complicating urban planners' struggle to balance growth and quality of life.

To get them off to a good start, "they must be able to do the kind of things they are good at doing," says Doug Saunders, a British-Canadian author and an expert on rural-urban migration. Immigrants from emerging economies often work in shops or restaurants, or set up their own small businesses, things that are difficult to accomplish if



Refugees move into housing in Frankfurt that was built in about two months.

they are disconnected from urban cores. Homies can be part of a wider solution to integrate the newcomers, he says.

The roughly 320 migrants from Syria, Afghanistan, Iraq, Iran and Pakistan who live in Frankfurt's Bonames district are housed in these types of flexible homes, built in about two months on a former parking lot.

"It's great to have our own private space including a kitchen" and not depend on the food services used in the big shelters, says Givara Jujan, an archaeologist from Aleppo, Syria, who lives with his fam-

ily in one of the micro-apartments run by Diakonie Frankfurt, a nonprofit organization.

Speaking in halting German, he says he is glad to live close to a trolley-car stop, as he will soon start a technology training program in another part of town. His wife has already started a training program in a local kindergarten, while their 8-month-old toddler stays at a nearby day-care center.

### A wider experiment

Affordable town-center housing isn't just a problem for refugees. Many students, pensioners and low-income

earners struggle, too. In response, students at TU Darmstadt University have developed Cubity, a minimalist dormitory which, according to its inventors, follows the principle of sufficiency. "It's about saving energy and saving resources," says Anett-Maud Joppinen, a professor of architecture who spearheads the project. Apartment cubes of about 8 square yards each are stacked on two levels around a large living area, kitchen and lounge.

Solar panels generate more energy than the 12 student residents use in the course of a year.

Ms. Joppinen says she expects growing demand for this type of housing. Other cities in Germany and Europe are also using pop-up housing to deal with an influx of migrants.

But skeptics say home-style housing will have a hard time making it in the mainstream, not the least because of the stigma attached to modular construction. The public tends to see it as a poor-quality option—a claim many architects reject—that infringes on existing neighborhoods, obstructs free space and often leads to a new mix of cultures and classes, developments that some people consider undesirable.

Critics point to Germany's countryside, where vacant homes are aplenty, because the owners died or moved away. People in need could settle there, they say.

But supporters say that any type of affordable city housing helps—as long as it avoids ghettoization and allows people to go about a normal life. "It's indispensable" because many city dwellers are being squeezed out of their homes amid rising rents and property prices, says Michael Frase, who heads Diakonie Frankfurt. "Many people are on the verge of becoming homeless."

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## BUSINESS NEWS

# Behind United's Fateful Decision

Airline's rules-based culture in spotlight after customer was dragged off a flight

By SUSAN CAREY

The recipe for the disastrous decision by United Airlines' employees to call for police to remove a passenger from a fully booked flight was years in the making.

Like most other airlines, **United Continental Holdings Inc.** follows strict rules on every aspect of handling its passengers, from how to care for unaccompanied minors to whether someone gets a whole can of Coke.

While procedures change to keep up with evolving safety and security protocols, streamlining the underlying bureaucracy can be a lower priority for an operations-focused carrier such as United, experts said.

Deviating from the rules is frowned upon; employees can face termination for a foul-up, according to people familiar with the matter.

At United, this has helped create a rules-based culture where its 85,000 employees are reluctant to make choices not in the "book," according to former airline executives, current employees and people close to United.

Airlines crave consistency, experts said, and United isn't unique in its strict focus on rules. For carriers—which face government scrutiny on everything from pilot training to repairs—the tomes of rule books can help ensure safety protocols are followed.

The company "follows manuals," said a longtime United pilot at the nation's third-largest carrier by traffic, where he said the rule-based culture was reinforced by the merger with Continental Airlines seven years ago.

The incident at United last week, in which Chicago Department of Aviation police dragged a screaming passenger, David Dao, down the aisle and off a



United Continental Chief Executive Oscar Munoz.

United Express regional flight, started as a mere scheduling issue. United declined to comment on the incident, pending its investigation.

People close to the company said it could have been avoided. At least some decisions that led to the crisis were fueled by employees following rules, which are endemic to big airlines and amount to giant manuals.

It isn't clear how much the reputational hit will cost the company. Investors so far haven't punished United's stock—shares ended last week 2% lower—but it isn't clear yet what impact the fracas will have on the carrier's bookings or new employee training costs.

Fliers have vowed on social media to boycott the airline, which transported 143 million passengers last year and was seeing big improvement operationally after a few sluggish years.

Many customers on social media and in the press have called on Chief Executive Oscar Munoz to resign.

United has lagged behind its rivals for years in financial and

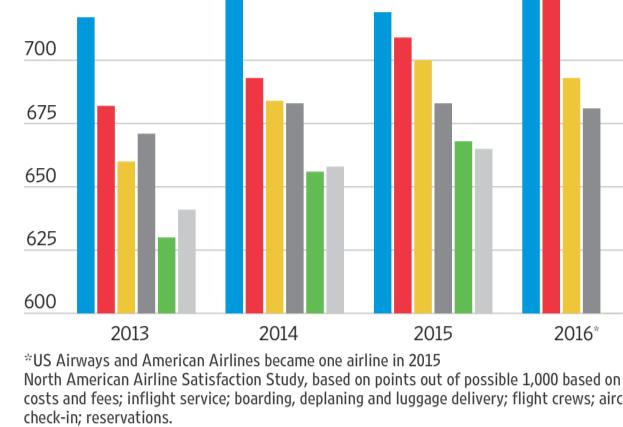
### Back of the Pack

United has performed poorly in airline consumer satisfaction surveys by J.D. Power, measured against other traditional network carriers

■ Alaska Airlines ■ Delta Air Lines ■ American Airlines

■ Air Canada ■ US Airways ■ United Airlines

750 points



\*US Airways and American Airlines became one airline in 2015  
North American Airline Satisfaction Study, based on points out of possible 1,000 based on costs and fees; inflight service; boarding, deplaning and luggage delivery; flight crews; aircraft; check-in; reservations.

Source: J.D. Power, a unit of McGraw Hill Financial

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operating performance.

Last Sunday evening, Republic Airways Holdings Inc., the regional airline operating the flight for United, asked an hour before departure for four of its crew members to take the place of passengers, according to a person familiar with the matter.

The crew was needed the next day at the flight's destination in Louisville, Ky., the person said. They had been delayed by a mechanical problem earlier. United agreed, according to two people with knowledge of the matter.

But the two pilots and two flight attendants didn't arrive at the gate until a few minutes before departure, according to United's pilots union. All the passengers were already seated.

United's gate agents went on board to offer compensation to customers who would agree to fly later, a negotiation that normally takes place at the gate. There are rules for this process, known as "denied boarding." No one took their top offer, \$800 plus a hotel voucher.

Instead of offering more, agents used a computer program, as dictated by the rules, to pick fliers of the least value to the airline based on factors like ticket price paid and frequent-flier status, according to people familiar with the matter.

Three obliged, but Dr. Dao, who was flying with his wife on a trip from California, refused. So the agents, following the rules, called for law enforcement.

In hindsight, the gate agent should have said, "Folks, we're not leaving until someone gets off. If someone doesn't take the \$800, we're going to cancel the flight," said the United pilot, who wasn't involved in the incident.

But canceling the flight would have been a drastic step, according to the rule books.

Robert Milton, nonexecutive chairman of United and a former CEO of Air Canada, said in an interview that Mr. Munoz has the complete backing of the 15-member board.

But Mr. Milton added that Dr. Dao's mistreatment and United's flat-footed reaction must become "a defining moment in the history of United Airlines pivoting to customer service and customer delivery."

Akzo is under increasing

# Savvy Lawyer Fights United

By ANDREW TANGEL  
AND SARA RANDAZZO

CHICAGO—This isn't the first time attorney Tom Demetrio has gone up against United Airlines.

Mr. Demetrio, who is representing the Kentucky doctor dragged off United Express Flight 3411 last week, has spent more than four decades suing on behalf of injured airline passengers, consumers and medical patients.

He previously faced the airline after one of its planes crashed in Sioux City, Iowa, in 1989, killing 110 passengers and injuring scores more. His firm, Corboy & Demetrio, won multimillion-dollar payouts for victims of the crash and their families, including a \$28 million jury verdict in 1994.

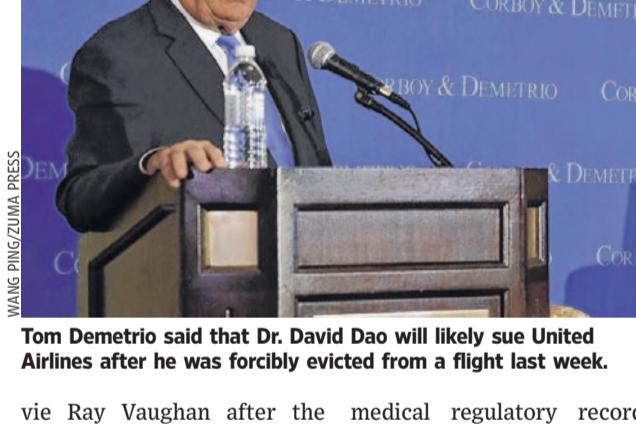
"We deal with people at their worst times in life, where they're devastated, both physically, mentally—and usually financially," Mr. Demetrio said in an interview at his office in Chicago. "The satisfaction is trying to better the quality of their life."

Mr. Demetrio landed Dr. David Dao's case by word-of-mouth. Dr. Dao's daughter, Crystal Dao Pepper, knows Chicago business lawyer Stephen Golan through her husband's family, both attorneys said. Mr. Golan contacted Mr. Demetrio's firm and the two are now handling the case together. That is a common progression in personal-injury cases, where the first call is often to a family lawyer or an attorney the plaintiff has used in the past.

Mr. Demetrio, 69 years old, is known among his peers in Chicago as plain-spoken and affable—as well as media savvy.

"He'll be a gentleman, but he'll make a very high demand and be tough to deal with," said Bill Johnson, a Chicago attorney who has sparred in court against Mr. Demetrio, of the likely case against United.

Mr. Demetrio has defended people injured by products or in medical mishaps, and National Football League players who suffered concussions and long-term brain damage. He represented the estate of Ste-



Tom Demetrio said that Dr. David Dao will likely sue United Airlines after he was forcibly evicted from a flight last week.

vie Ray Vaughan after the blues guitarist died in a helicopter crash in 1990. He has secured multimillion-dollar payouts from juries and in private settlements.

He hasn't always won, of course: One loss came when a jury sided against his client, a patient who contracted HIV and hepatitis C from a kidney transplant. An appellate court later ordered a new trial, and the case was settled out of court.

Some experts say having media skills is key to taking on such well-publicized cases.

"A high-profile lawyer gets to be that only one way: they know how to use and manipulate the media to their benefit," said Brian Kabateck, a plaintiffs' lawyer in Los Angeles, speaking in general.

But lawyers who know Mr. Demetrio say his ability to tell a story and build a rapport with juries has made him formidable in court.

"He can speak for 'everyone'—that's the type of lawyer he is and that's why he's very successful with the jury," said C. Barry Montgomery, a Chicago attorney who has defended companies against Mr. Demetrio's lawsuits.

However, portraying Dr. Dao as a surrogate for all passengers could be complicated by matters related to a 2004 prescription-drug conviction that led to a suspension of his medical license.

Dr. Dao told police that he couldn't leave last Sunday's flight because he needed to get home to see patients. Kentucky

medical regulatory records show he is limited to practicing one day a week at the Elizabethtown, Ky., medical practice of Dr. Bill Godfrey. Dr. Godfrey said in an interview that Dr. Dao finished practicing there a few months ago.

Mr. Demetrio said Dr. Dao's history wasn't relevant to his case. He said Dr. Dao needed to be in his wife's office to work on paperwork related to returning to his practice full-time. Dr. Dao's wife, also a doctor, had patients to see Monday but he wasn't "going to get into a big long explanation with the stormtroopers," Mr. Demetrio said. "I don't blame him."

Mr. Demetrio said he generally pushes to disclose settlement amounts as a deterrent to future malpractice and negligence, and because the public has the right to know. Plaintiffs' attorneys "are the watchdog," he said.

Mr. Demetrio said Dr. Dao is likely to sue United and the City of Chicago, whose aviation officers pulled Dr. Dao from the plane. Attorneys were due in court Monday to discuss preserving evidence for the case; Mr. Demetrio's office said Saturday the airline and city have already agreed to do so.

A **United Continental Holdings Inc.** spokesman pointed to a previously issued statement apologizing to Dr. Dao and expressing a "commitment to make this right." A spokesman for the City of Chicago declined to comment on pending litigation.

# Balancing Act at Whole Foods

By ANNIE GASPARRO  
AND HEATHER HADDON

**Whole Foods Market Inc.** wants to cut prices without sacrificing the local products that define its healthy image.

Investors are pushing the organic-food pioneer to boost profit by operating more like a big-box grocer. Some smaller suppliers and industry consultants say the shift to a more centralized distribution structure and other changes risk compromising Whole Foods' ability to keep stocked with the latest foodie trends and hot local brands.

"Shifting to national buyers can certainly deliver cost savings to Whole Foods, but at what price to the soul of the banner?" said Jim Cusson of brand consultancy Theory House.

Many of the changes are being spearheaded by Don Clark, a former **Target Corp.** executive hired in November 2015 to run Whole Foods' grocery operations. The data analytics, centralized purchasing and strict shelf-management knowledge he brought from Target could save money that Whole Foods can use to lower its relatively high prices, addressing a key customer complaint. But matching its competitors on price could also mean limiting how often it updates the products Whole Foods stocks.

Whole Foods has long divided its 462 stores into 11 regions, each with distinct prod-

# Akzo Stakeholders Get Pitch From PPG

By BEN DUMMETT

**PPG Industries Inc.** appealed directly to **Akzo Nobel NV** shareholders, employees and customers to pressure the Dutch paint and chemicals maker into negotiations over the U.S. rival's \$24 billion takeover bid.

In an open letter to Akzo's stakeholders, PPG highlighted its stronger stock-market performance, its sales growth and its successful takeover record as reasons for negotiations to begin, arguing that the combined company would be stronger than two independent competitors.

PPG said it has generated a total shareholder return of 282% over the past 10 years, compared with Akzo's 87%, and has increased sales to \$15 billion from \$10 billion over that period.

The letter comes ahead of Akzo's plan this week to unveil its strategy to separate its specialty-chemicals business in a bid to boost the paint maker's stock price.

Some investors have argued that Akzo's stock price has traded at a discount in part because of the difficulty in valuing the paint and chemicals businesses as one company.

Akzo, whose brands include Dulux and Sikkens, is also expected to announce new financial projections.

Akzo's plan "will be more risky, create more uncertainty for Akzo Nobel employees...and create less value than our proposal," PPG said in its letter.

Akzo is unmoved. "We've already made our position regarding PPG's proposal very clear," said an Akzo spokesman. "We are looking forward to our investor event on Wednesday where we will be updating the market on our plans to create shareholder value."

Akzo is under increasing

pressure to appease investors after U.S. activist investor Elliott Management Corp. this month called for a special meeting of the Dutch company's shareholders to try to oust the chairman of the supervisory board, as Elliott and other investors push for sale talks to begin. Akzo said it would consider, though not guarantee, holding the meeting. But it also said it would reject any proposed agenda item seeking to dismiss Chairman Antony Burgmans.

Last month, Pittsburgh-based PPG initially bid €83 a share (\$88.37) for Akzo and then sweetened that offer to €88.72. Akzo rejected both as too low and argued that they didn't adequately take into account the interest of employees and customers.

*Akzo's plan 'will be more risky, create more uncertainty... and create less value.'*

Akzo shares closed up 1%, at €79.32 on Monday in Amsterdam, well below PPG's offer price, in a sign that investors aren't betting on a deal. Still, the stock price is up about 23% since PPG's initial offer.

PPG, in its letter, countered Akzo's concerns about potential job losses in the Netherlands, noting it would continue to operate domestic plants and have employees in the regions where its paints are featured after any takeover.

PPG, whose brands include Pittsburgh Paints and Glidden, operates five facilities in the Netherlands and employs 1,000 people in that country.



Whole Foods' challenge is to cut prices but maintain its commitment to locally sourced products.

## FINANCE & MARKETS

# PwC Hit By Suit Over Its Hiring Practices

BY JACOB GERSHMAN

**PricewaterhouseCoopers** bills itself as the "place to work for millennials," who have taken jobs and internships with the accounting giant in droves. The firm annually recruits thousands of newly minted college graduates.

The firm's aggressive pursuit of youth is now the focus of a class-action suit, part of an emerging wave of litigation that is testing the boundaries of age-discrimination liability and casting a legal cloud over college recruitment programs.

Employment lawsuits alleging age bias aren't new and are usually brought by fired employees. Cases like the one against PwC allege discrimination against job applicants, whose civil rights involve a surprisingly unsettled area of law.

The named plaintiffs in the PwC case are two men—one 53 years old and the other 47—whose applications for entry-level associate positions at the firm were rejected.

The litigants have years of accounting and bookkeeping experience, but both failed to make the cut. They allege they were turned down because they lacked the youthful profile possessed by so many PwC recruits.

To "attract and maintain millennials," PwC intentionally screens out individuals ages 40 and older...and denies them employment opportunities," according to their lawsuit in San Francisco federal court.

Such favoritism toward millennials, the suit alleges, violates the federal Age Discrimination in Employment Act.

**The litigants have years of experience, but both failed to make the cut at PwC.**

The plaintiffs say the ADEA was meant to cover hiring practices that may not intentionally discriminate against older workers but have a disproportionately adverse effect on them.

Lawyers for PwC say the plaintiffs' reading of the law conflicts with Congress's intent.

Courts have upheld "disparate impact" claims against hiring practices in other contexts, such as lawsuits accusing firms of gender and race bias. Those other categories are covered by a different civil-rights statute.

But the idea that company recruitment efforts aimed at students and recent graduates can be unlawful is a controversial premise that no federal appeals court has ever endorsed.

Courts have looked at the question more closely after a recession that saw many seasoned workers lose their jobs and toil to find new ones.

Advocates for older Americans say age discrimination in hiring is driven by a common misconception that younger workers are more productive, creative, trainable and cheaper.

Their legal arguments have gotten support from the U.S. Equal Employment Opportunity Commission and a sympathetic hearing from some judges, including from the district-court bench presiding over the PwC case.

"The history of the ADEA's enactment reveals that Congress was concerned not just with age discrimination within the workplace, but also with the barriers to older workers finding employment in the first place," wrote Judge Jon Tigar of San Francisco in February when he declined to dismiss the case.

The ADEA prohibits an employer from depriving an individual of employment opportunities "or otherwise adversely affect[ing] his status as an employee" because of the person's age.

# Manufacturers Weigh Cyber Policies

BY RICHARD TEITELBAUM

**Abbott Laboratories** was pilloried last week by regulators for, in part, botching its response to a report that certain company defibrillators and pacemakers could be manipulated by hackers. Shares of the health-care company, which acquired the devices in its purchase of St. Jude Medical Inc., fell 1.9%.

The criticism, which came in a warning letter from the Food and Drug Administration, casts another spotlight on the fusillade of cyber dangers facing manufacturers.

For years cyber insurance was overwhelmingly purchased by consumer-facing business—retailers, financial-service providers and hospitals. Mostly this was to protect against customer data theft. The St. Jude situation helps explain why manufacturers are now rushing to make sure they are covered.

Manufacturers paid \$36.9 million in premiums for cyber-specific policies in 2016, according to **Advisen Ltd.**, an insurance consulting firm, based on its sample of over 9,000 mostly U.S. companies. That is up 89% from the year before. Manufacturers accounted for 12.6% of premiums tracked in 2016 compared with 9% the year before.

"There's certainly an increased exposure in the industry overall, especially with more reliance on cloud providers, greater sophistication of hackers globally and increased consumer interactions through social media," said Daniel Steiner, enterprise risk manager at **Kimberly-Clark Corp.**, the maker of Kleenex tissues



**A Kimberly-Clark factory in Brazil. The firm began buying cyber insurance in 2009, as traditional policies may not cover cyberattacks.**

and Huggies diapers. The company began buying cyber insurance in 2009.

Factories are increasingly computerized, automated and digitally integrated with other parts of a company and keeping those networks secure is critical. "It's hard to think of an area of our business that is not touched by this, as business is only becoming more connected," said Eric Dobkin, director of insurance and risk management at drugmaker **Merck & Co.** in an email.

"Nobody should be able to look at themselves in the mirror and say 'I'm not exposed to this,'" said Robert Wice, leader for technology, media and business services of Beazley PLC in the U.S. "It should be top of mind."

As for St. Jude, a company

spokeswoman declined to say whether it carried cyber insurance to cover the cardiac devices. A 2016 filing said it didn't carry product liability insurance. An Abbott spokesman declined to comment on whether the company has cyber insurance. Abbott's shares were up 1% in intraday trading Monday.

In the event of a cyberattack that shuts down a factory, manufacturers may not be covered by existing policies. Many property and casualty policies require physical damage before they pay, said Ben Beeson, cyber-risk practice leader at brokerage Lockton Cos.

A wake-up call for manufacturers came in December 2014 when the German Federal Office for Information Security

reported that a cyberattack caused "massive damage" at a steel plant it didn't name. The report highlighted how cyberattacks can be more destructive than events like floods that are covered by typical P&C policies.

"When you look at severity, you have to consider they are cyber-based," said Brent Pickens, director of global risk management at Bemis Co., a maker of plastic packaging that was an early buyer of cyber insurance.

Selecting a cyberpolicy forces manufacturers to set priorities on what to protect, he said, particularly at larger companies that can have policies tailored for different plants and situations. "You get the best return out of [insuring] what is most important

for you," Mr. Pickens added.

The market for manufacturers is young, therefore premiums vary greatly and are based on revenue, specific lines of business, and the number of records involved. Premiums range from \$10,000 to \$15,000 for every \$1 million of comprehensive coverage for manufacturers with \$1 billion or more in revenue, said Michael Blake, part of the cybersecurity practice at Alliant Insurance Services Inc. That is about half of what retailers and banks pay.

"It's not a difficult sell," Mr. Blake said. "There is not a risk manager out there who wants to walk into a board meeting to explain why he didn't think to get a cyber insurance quote, especially since it's so cheap."

# China's Ant Financial Boosts MoneyGram Bid

BY PHRED DVORAK

**Ant Financial Services Group** raised its bid for U.S. money-transfer company **MoneyGram International Inc.** to around \$1.2 billion, topping a rival offer and making China's biggest online-payments firm once more the leading contender in an increasingly politicized takeover battle.

Ant Financial, which is controlled by Chinese e-commerce giant **Alibaba Group Holding Ltd.**, has been looking to expand overseas and initially signed a deal to buy MoneyGram in January for \$880 million.

But it was sideswiped in March by an unsolicited competing offer of around \$955 million from payments processor **Euronet Worldwide Inc.**

Euronet, based in Leawood, Kan., also launched a lobbying campaign, telling U.S. lawmakers of its decision but declined to comment on any response.

which leads the multiagency body that reviews foreign investments for national-security issues—that an Ant takeover could pose privacy and information-control risks.

Ant has denied those claims and is fighting back with its own lobbying and public-relations campaign.

On Sunday—following MoneyGram's receipt of a binding offer from Euronet—Ant increased its cash bid to \$18 a share from \$13.25. Ant will also assume or refinance MoneyGram's debt. MoneyGram's board unanimously voted to approve the increased offer.

"It's a superior financial bid—at \$18 it's extremely compelling," said MoneyGram Chief Executive Alex Holmes, describing Euronet's lobbying efforts as "noise." He said that the board had notified Euronet of its decision but declined to comment on any response.



**Ant raised its offer for U.S.-based MoneyGram to \$1.2 billion.**

Euronet didn't respond to a request for comment.

MoneyGram shares were up 7.7% at \$17.78 in midday Nasdaq trading on Monday.

Douglas Feagin, Ant Financial's head of international business, said that progress

has been made on the review by the multiagency body, the Committee on Foreign Investment, or CFIUS, but he declined to give specifics.

Ant's bid for MoneyGram is being closely watched as a barometer of how such acquisitions might be viewed under the new administration of President Donald Trump. Mr. Trump had campaigned on a protectionist platform and been highly critical of China's stance on trade and investment right after he was elected, though his rhetoric warmed following face-to-face meetings with Chinese President Xi Jinping in early April.

Concern has been rising on Capitol Hill over a surge in Chinese investment in U.S. companies, and CFIUS has opposed several recent Chinese acquisitions of U.S. and European companies.

On Ant's part, a purchase of MoneyGram would let the company marry the U.S. company's extensive global network for payments transactions with the 600 million customers—mostly in China—who use Ant's services now, said Mr. Feagin.

## FINANCE WATCH

### INSURANCE

#### Indonesia Changes Stand on Ownership

Indonesia will reinstate an 80% foreign-ownership limit on insurance companies, a move that will likely require some foreign investors to cut their stakes in local firms.

Finance Minister Sri Mulyani Indrawati said in parliament that insurance companies with foreign ownership of more than 80% must adhere to the cap if they need fresh capital. "It means that the new capital injection must come from domestic [investors]," Ms. Mulyani said.

A regulation passed in 1992 capped foreign ownership at 80%. But in 1999, authorities allowed foreign investors to exceed the ceiling after their domestic partners weren't able to extend credit to their insurance companies.

The parliament in 2014 passed a law that called for curbs on foreign ownership in the industry, but left setting the limit to the government.

—I Made Sentana

### SAUDI ARABIA

#### Oil Minister Expects Help With Market

Members of the Organization of the Petroleum Exporting Countries and producers outside the group will do what is necessary to balance the oil market, Saudi Arabia energy minister Khalid al-Falih said on Monday.

Saudi Arabia has told OPEC officials it wants to extend the cartel's agreement to cut oil production for another six months when the group meets in May, people familiar with the matter have said. Saudi support is essential for OPEC to renew the agreement.

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China A-Share Fund Cls A CAD H OT HKG 04/12 CAD 11.65 6.6 10.5 -3.7

China A-Share Fund Cls A EUR H OT HKG 04/12 CAD 12.70 7.1 11.1 -3.8

China A-Share Fund Cls A GBP H OT HKG 04/12 EUR 12.27 6.8 9.9 -4.7

China A-Share Fund Cls A GBP H OT HKG 04/12 GBP 12.49 8.3 15.5 NS

China A-Share Fund Cls A GBP H OT HKG 04/12 GBP 12.30 6.8 13.8 -2.7

China A-Share Fund Cls A GBP H OT HKG 04/12 GBP 12.46 7.5 12.2 5.4

China A-Share Fund Cls A HKD H OT HKG 04/12 HKD 12.49 10.9 11.4 -9.0

China A-Share Fund Cls A NZD H OT HKG 04/12 NZD 12.37 10.9 7.8 0.0

China A-Share Fund Cls A SGD H OT HKG 04/12 SGD 12.49 7.7 13.1 -1.7

China A-Share Fund Cls A USD H OT HKG 04/12 USD 11.05 10.9 7.8 NS

China A-Share Fund Cls A USD H OT HKG 04/12 USD 13.66 8.9 15.3 -1.4

China A-Share Fund Cls A USD H OT HKG 04/12 USD 12.33 10.8 8.7 -5.0

China A-Share Fund Cls A USD H OT HKG 04/12 USD 12.46 7.1 11.8 -4.3

China Greenchip-A Units AS EQ CYM 04/12 HKD 57.81 13.6 21.1 -8.6

China Greenchip-A Units AS EQ CYM 04/12 AUD 9.77 13.7 21.8 -9.0

China Greenchip-A Units AS EQ CYM 04/12 CAD 9.49 13.5 20.4 -9.8

China Greenchip-A Units AS EQ CYM 04/12 NZD 10.04 13.8 22.6 -8.2

China Greenchip-A Units AS EQ CYM 04/12 SGD 9.55 13.4 20.9 -9.5

China Greenchip-A2 QDIs Units AS EQ CYM 04/12 HKD 10.49 13.7 21.1 -8.6

GC HI Yield Inc-Cls A MDLS GBP H OT CYM 04/12 GBP 9.92 6.5 19.4 NS

GC HI Yield Inc-Cls A MDLS AUD H OT CYM 04/12 AUD 10.26 6.6 20.3 11.8

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 04/12 SGD 15.19 6.9 20.7 11.5

GC HI Yield Inc-Cls A MDLS USD Acc H OT CYM 04/12 USD 9.49 6.9 20.5 11.5

GC HI Yield Inc-Cls A MDLS EUR H OT CYM 04/12 EUR 11.36 6.2 18.5 10.2

Hi-Div Stk Cts A RMDS H Acc OT HKG 04/12 NHK 11.28 12.8 18.0 1.2

Hi-Div Stk Cts A RMDS H Acc OT HKG 04/12 USD 13.46 9.9 21.6 3.6

Hi-Div Stk Cts A2 AUD H MDLS OT HKG 04/12 AUD 79.96 11.5 15.4 -1.0

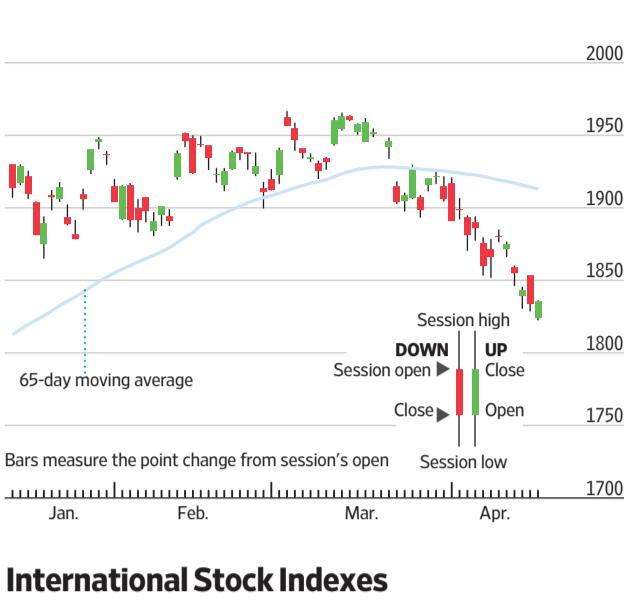
Hi-Div Stk Cts A2 CAD H MDLS OT HKG 04/12 CAD 9.56 11.3 15.3 -0.8

## MARKETS DIGEST

### Nikkei 225 Index

**18355.26** ▲ 19.63, or 0.11%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
Session open ► Close  
Close ► Open  
Session low

Jan. Feb. Mar. Apr.

### STOXX 600 Index

**380.58** Market Closed

High, low, open and close for each trading day of the past three months.

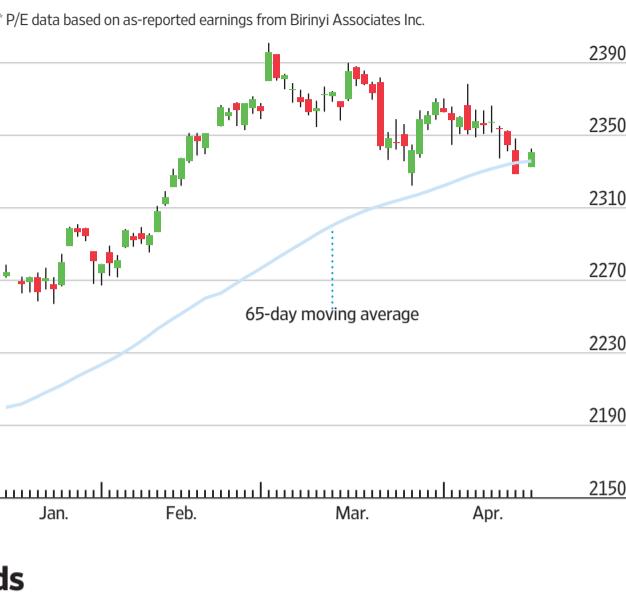


Jan. Feb. Mar. Apr.

### S&P 500 Index

**2340.58** ▲ 11.63, or 0.50%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

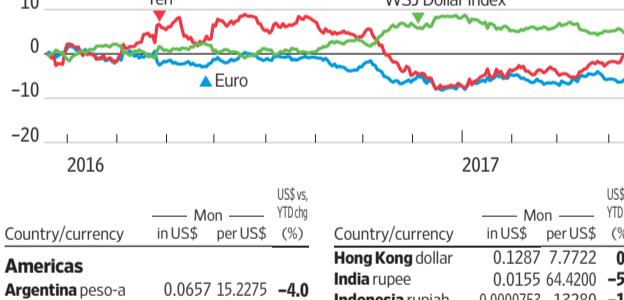
### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	YTD High	% chg
<b>World</b>	<b>The Global Dow</b>	2660.97	11.93	<span style="color: green;">▲ 0.45</span>	2193.75	2720.47	5.3
	<b>MSCI EAFE</b>	1786.47	8.84	<span style="color: green;">▲ 0.50</span>	1471.88	1956.39	4.1
	<b>MSCI EM USD</b>	962.18	1.75	<span style="color: green;">▲ 0.18</span>	691.21	1044.05	21.1
<b>Americas</b>	<b>DJ Americas</b>	565.18	2.98	<span style="color: green;">▲ 0.53</span>	480.90	577.65	4.6
Brazil	<b>Sao Paulo Bovespa</b>	63569.84	743.56	<span style="color: green;">▲ 1.18</span>	48066.67	7203	-6.53
Canada	<b>S&amp;P/TSX Comp</b>	15663.64	128.16	<span style="color: green;">▲ 0.82</span>	13535.54	15943.09	2.5
Mexico	<b>IPC All-Share</b>	49038.55	82.73	<span style="color: green;">▲ 0.17</span>	43902.25	49753.57	7.4
Chile	<b>Santiago IPSA</b>	3749.35	-0.96	<span style="color: red;">-0.03</span>	2998.64	3786.05	16.3
<b>U.S.</b>	<b>DJIA</b>	20559.75	106.50	<span style="color: green;">▲ 0.52</span>	17063.08	21169.11	4.0
	<b>Nasdaq Composite</b>	5835.64	30.49	<span style="color: green;">▲ 0.53</span>	4574.25	5936.39	8.4
	<b>S&amp;P 500</b>	2340.58	11.63	<span style="color: green;">▲ 0.50</span>	1991.68	2400.98	4.5
	<b>CBOE Volatility</b>	15.22	-0.74	<span style="color: red;">-4.64</span>	9.97	26.72	8.4
<b>EMEA</b>	<b>Stoxx Europe 600</b>	380.58	...	Closed	308.75	381.90	5.3
	<b>Stoxx Europe 50</b>	3146.65	...	Closed	2626.52	3182.84	4.5
France	<b>CAC 40</b>	5071.10	...	Closed	3955.98	5142.81	4.3
Germany	<b>DAX</b>	12109.00	...	Closed	9214.10	12375.58	5.5
Israel	<b>Tel Aviv</b>	1378.66	...	Closed	1372.23	1504.42	-6.3
Italy	<b>FTSE MIB</b>	19773.68	...	Closed	15017.42	20540.39	2.8
Netherlands	<b>AEX</b>	515.77	...	Closed	409.23	521.48	6.7
Russia	<b>RTS Index</b>	1094.27	21.12	<span style="color: green;">▲ 1.97</span>	864.46	1196.99	-5.0
Spain	<b>IBEX 35</b>	10326.10	...	Closed	7579.80	10534.50	10.4
Switzerland	<b>Swiss Market</b>	8629.02	...	Closed	7475.54	8710.26	5.0
South Africa	<b>Johannesburg All Share</b>	53510.22	...	Closed	48935.90	54704.22	5.6
Turkey	<b>BIST 100</b>	90653.80	590.11	<span style="color: green;">▲ 0.66</span>	70426.16	91832.03	16.0
U.K.	<b>FTSE 100</b>	7327.59	...	Closed	5788.74	7447.00	2.6
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1546.19	6.85	<span style="color: green;">▲ 0.44</span>	1308.52	1570.38	8.7
Australia	<b>S&amp;P/ASX 200</b>	5889.90	...	Closed	5103.30	5934.00	4.0
China	<b>Shanghai Composite</b>	3222.17	-23.90	<span style="color: red;">-0.74</span>	2806.91	3288.97	3.8
Hong Kong	<b>Hang Seng</b>	24261.66	...	Closed	19694.33	24593.12	10.3
India	<b>S&amp;P BSE Sensex</b>	29413.66	-47.79	<span style="color: red;">-0.16</span>	25101.73	29974.24	10.5
Indonesia	<b>Jakarta Composite</b>	5577.49	-39.06	<span style="color: red;">-0.70</span>	4704.22	5680.24	5.3
Japan	<b>Nikkei Stock Avg</b>	18355.26	19.63	<span style="color: green;">▲ 0.11</span>	14952.02	19633.75	-4.0
Malaysia	<b>Kuala Lumpur Composite</b>	1733.93	2.94	<span style="color: green;">▲ 0.17</span>	1614.90	1754.67	5.6
New Zealand	<b>S&amp;P/NZX 50</b>	7229.80	...	Closed	6664.21	7571.11	5.1
Pakistan	<b>KSE 100</b>	47125.12	-451.94	<span style="color: red;">-0.95</span>	33572.13	50192.36	-1.4
Philippines	<b>PSEI</b>	7588.53	-41.11	<span style="color: red;">-0.54</span>	6563.67	8102.30	10.9
Singapore	<b>Straits Times</b>	3138.30	-30.94	<span style="color: red;">-0.98</span>	2729.85	3187.51	8.9
South Korea	<b>Kospi</b>	2145.76	10.88	<span style="color: green;">▲ 0.51</span>	1925.24	2178.38	5.9
Taiwan	<b>Weighted</b>	9716.40	-16.53	<span style="color: red;">-0.17</span>	8053.69	9972.49	5.0
Thailand	<b>SET</b>	1575.91	-13.59	<span style="color: red;">-0.85</span>	1381.69	1591.00	2.1

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



2016 2017

London close on April 17



Country/currency

US\$ vs. Mon. per US\$ (%)

Country/currency

US\$ vs. Mon. per US\$ (%)

Country/currency

# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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## China Is Bailed Out by Consumers

Everyone knows the China stimulus story: When the economy hiccups, state firms ramp up borrowing, which they plow into buildings and bridges to boost growth.

That used to be the story—it isn't anymore. Since 2015, China's stimulus model has undergone a change. A ramp up in household borrowing has helped slow the dangerous rise in China's corporate debt burden. But as U.S. banks discovered to their sorrow in 2008, rising consumer debt paired with slowing income growth is dangerous.

Like most things in China, the shift is bound up with the real-estate sector. As China's downturn in 2015 deepened, companies groaning under debt equal to 150% of gross domestic product were in no position to play their role as stimulus engines. The central bank's efforts to lower corporate borrowing costs fueled a stock bubble, but did little to boost real loan demand.

To solve the problem, Beijing turned to the two sec-

### Role Reversal

Chinese debt outstanding, change from a year earlier



Sources: BIS; Associated Press (photo)



People buy roses in Beijing.

tors of the economy in best shape debt-wise: households and the government.

First, it rolled out a bond-refinancing program for local state-owned firms, essentially shifting their debts onto provincial balance sheets. And second, mortgage lending standards were dramatically eased, unleashing pent-up household demand. Consumer lending, which had been at a monthly average of about 15% of net

new financing to the economy since 2010, shot up to more than 30% by late 2016.

The effects have been dramatic. Housing inventories have fallen by about 15% and sit near their lowest levels since 2013—helping real-estate developers shed debt and shoring up industrial firms' finances as steel and cement demand have returned. Chinese firms have slowed their own borrowing: Nonfinancial corporate debt

as a share of GDP fell by 0.6 percentage point in the third quarter of 2016, according to the Bank for International Settlements, the first dip since 2011.

The flip side has been a rise in consumer debt. Chinese families are less indebted than their U.S. counterparts in relative terms: U.S. consumer debt was nearly 80% of GDP in late 2016, about twice the equivalent figure for China. But that is rising rapidly: Debt is up nearly 40% in the past two years. And incomes, growing more than 8% a year in early 2015, barely eked out a 6% gain last year.

Trading healthy household balance sheets for marginally healthier corporate ones helped boost growth. But if the next time the economy slows—and the time after that—Beijing decides to goose consumer lending again, eventually higher debt and slowing income growth are likely to collide in a painful manner, as they did 10 years ago across the Pacific.

—Nathaniel Taplin

### OVERHEARD

Investors can miss quite a bit on a three-day weekend.

**Baxter International** said in a securities filing on Friday that one of the company's employees had received a grand jury subpoena prepared by the U.S. Department of Justice earlier in the week. Its shares were down 1% midday Monday.

Baxter had previously disclosed a separate antitrust investigation by the New York Attorney General's office.

The medical-supplies company said the new subpoena, which is "pursuant to a criminal investigation," calls for the employee to produce documents and testimony regarding, among other things, pricing and shortages of intravenous solutions "and communications with competitors regarding the same."

Revenue in the company's fluid-systems segment was \$2.3 billion last year, slightly more than one-quarter of total sales. Baxter said in the filing that it is cooperating with the new investigation.

### FCC Shift Might Not Change a Lot

Shares of U.S. broadband providers have run up since the election on the hope that the Trump administration will bring a lighter touch to telecom policy. But even with looser net-neutrality rules on the horizon, little may actually change.

Federal Communications Commission Chairman Ajit Pai is planning to roll back a key aspect of the Obama administration's 2015 rules governing how broadband providers treat internet traffic. The rules are expected to end the policy of classifying broadband as a utility subject to price regulation and return providers to a more limited regulatory framework. That would remove a long-term risk for companies. But it may not make much difference in the short term, raising the question of whether recent stock-price gains are fully justified.

Critics of the current rules argue that the threat of price regulation has chilled investment. But cable capital expenditures at **Comcast**, the largest wired broadband provider, have continued to climb since the new rules and are expected to rise this year, according to UBS.

Broadband stocks were doing well even before President Donald Trump. Shares of Comcast, Charter and **AT&T** all outperformed the S&P 500 during the period between the FCC's February 2015 vote to reclassify broadband and Election Day.

Companies are also savvy enough not to raise prices right after the rules change. And there is the risk that a future Democratic administration will change the rules again. Investors shouldn't celebrate too loudly about looser net-neutrality rules.

—Miriam Gottfried

## Don't Write Off Comcast's Wireless Ambitions Just Yet

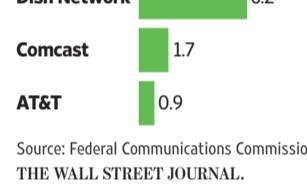
Deal making in the wireless business is getting a green light, and investors are watching to see if **Comcast Corp.** will join the race.

The cable giant said Thursday it paid \$1.7 billion for wireless spectrum licenses in the U.S. government's auction of broadcast airwaves, making it the third-largest bidder after **T-Mobile US Inc.** and **Dish Network Corp.** The announcement came just a week after Comcast unveiled the details of its Xfinity Mobile wireless service, which it plans to market only to its existing customers.

Comcast's spectrum purchase is smaller than the \$4 billion or so analysts had

### Wireless Calling

Amount spent on spectrum in the FCC's auction, in billions



Source: Federal Communications Commission

THE WALL STREET JOURNAL.

forecast. But it doesn't quell speculation Comcast may want a bigger piece of the wireless business.

The auction rules prevent companies in the industry

from talking to each other until 10 days after the announcement of the auction results. That has meant deal talks have been on hold for more than a year.

Comcast has positioned Xfinity Mobile, which will run on Verizon Communications Inc.'s cellular network, as a way to help it retain customers. Comcast has said it doesn't need to own its own network to be successful in wireless. But the broader strategy at Comcast and its rivals has been moving toward the convergence of TV distribution, TV content, fixed broadband service and wireless service. And history suggests Comcast

can't reap the biggest benefits of the wireless business without owner's economics.

If Comcast is serious about wireless, it likely will need to purchase a player such as T-Mobile, **Sprint** or even Verizon. T-Mobile spent \$8 billion on spectrum in the auction. If Comcast were planning to bid for it, it may have decided it wasn't worth paying for additional spectrum in the auction.

Comcast may also not be in a hurry to act. Sprint is likely to try again soon to merge with T-Mobile in the hopes that a deal will have better chances under a Republican administration. Dish Network may also be

interested in a combination with T-Mobile. If a deal between T-Mobile and Sprint is rejected, Comcast could pick up one of the pieces without as much competition. If it is approved, Comcast could bid for the combined company.

And even if Comcast fails to buy a wireless carrier, it could make money on its spectrum. The last time the company bought spectrum as part of a group of cable peers in 2006, it made a sizable gain upon selling it to Verizon in 2011.

Comcast's wireless plans may still be very much alive. Investors shouldn't underestimate its chances of success.

—Miriam Gottfried

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# MARKETS

## China Piles Into Risky Debt

Investors bid up low-rated corporate bonds even as defaults are expected to climb

By SHEN HONG

SHANGHAI—China's riskiest corporate bonds are looking disproportionately expensive, a worrying sign that investors may be underestimating their risk as a tighter monetary policy and painful industrial restructuring weaken companies' ability to repay debt.

The gap between the average yields on five-year AA-rated and safer AAA-rated corporate bonds—a popular measure in China of how much more lower-graded debt issuers compensate investors for higher risk—has narrowed to its thinnest level on record. That so-called credit spread is now 0.49 percentage point, down from around 0.90 point in late July, shortly before Beijing started reversing an easy-money policy that has kept its economy humming along at the expense of ballooning debt and inflated asset prices.

The popularity of bonds with low credit ratings in recent months, despite expectations of rising debt defaults and Beijing's pledge to reduce leverage in financial markets, is the latest example of the constant anomalies in the country's \$9 trillion bond market, which is the world's third-largest but remains underdeveloped.

Such an anomaly further distorts a market where long-standing flaws including the lack of a rigorous credit-rating system and proper pricing of risk have weakened the ability of both bond issuers and investors to gauge their future risks more accurately, analysts say. Concerns about these problems remain a big stumbling block for Beijing to attract strong foreign interest

### Underpriced Risk

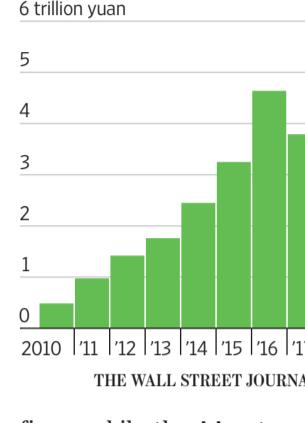
The yield spread between China's riskiest and safer corporate bonds is the narrowest on record.

#### Five-year corporate bond-yield spread



Source: Wind Info

#### Corporate bonds due to mature



firms, while the AA category covers a variety of much riskier issuers including unprofitable steelmakers and local-government investment arms with questionable financials.

A confluence of factors is behind the recent tightening in credit spreads. They include a steadier Chinese currency and an easing of capital outflows, which have increased risk appetite.

There has also been a dearth of fresh bond supply. Pressured by rising borrowing costs, Chinese firms have issued a combined 917 billion yuan (\$133 billion) worth of new bonds so far this year, marking a sharp decline from 2.4 trillion yuan in the year-earlier period and 1.01 trillion yuan in the 2015 period.

The scarcity of new bonds has left many investors with no choice but to turn to the secondary market for supply.

"But the recent drop in new bond issuance is temporary too, because a massive amount of old bonds are due to mature this year, so there's large refinancing pressure for companies," said Wang Ying, an analyst at Fitch Ratings.

According to data provider Wind Info, a total of 3.79 trillion

yuan worth of corporate bonds will mature this year, down from last year's record 4.64 trillion yuan but higher than 3.25 trillion yuan in 2015 and more than double that in 2013.

As Chinese banks scale back lending in a weakening economy, many companies, especially smaller firms with limited access to bank loans, will be forced to return to the bond market to raise funds.

The exceptionally tight credit spreads are also a sign of investors' complacency about the hidden risk in lower-quality bonds.

The main buyers include trust firms, asset managers, brokerages and small banks that have issued so-called wealth-management products that promise investors much higher returns than bank deposits.

"In many cases the spread is too tight to reflect the worrisome fundamentals of the issuers, which adds to the systemic risk in the entire bond market," said Gu Weiyong, general manager of Ucon Investments, a Shanghai private-equity fund.

As interest rates rise and Beijing pushes ahead with efforts to cut overcapacity in sectors such as steel and coal, analysts expect credit risk to become more pronounced later in the year.

A total of eight Chinese companies have defaulted on their bonds so far this year, down from 11 in last year's period but well above just three in 2015.

"As the government becomes more tolerant of defaults, I expect this year's final number to exceed last year's total of 16," said Fitch Ratings' Ms. Wang.

The current yield spread between AA-rated and AAA-rated bonds is well below its average of 0.90 percentage point since 2008, when records became available, according to Lisa Li, senior analyst at Fortune SG Fund Management Co.



Liu Shiyu, chairman of the China Securities Regulatory Commission

## Chinese Stocks Fall As Regulator Talks

By KOSAKU NARIOKA AND GUNJAN BANERJI

Shares in Shanghai declined as China's securities regulator urged tighter supervision of listed firms, but U.S. stocks gained ground, buoyed by optimism over coming corporate earnings reports.

### MONDAY'S MARKETS

The Shanghai Composite Index closed down 23.90 points, or 0.7%, at 3222.17, while the Dow Jones Industrial Average was up 117 points, or 0.6%, to 20571 near midday in New York. The S&P 500 and the Nasdaq Composite both were up 0.6%.

Markets in Australia, New Zealand and Hong Kong, as well as most European exchanges, were closed.

The declines in Chinese stocks came after Liu Shiyu, chairman of the China Securities Regulatory Commission, urged stock exchanges over the weekend to strengthen regulation and severely punish violations.

"Comments from Mr. Liu add psychological pressure on the market, which has been trading within a narrow range," said Shen Meng, director at Chanson & Co., an investment firm. "We are seeing a quick shift in [the] market mechanism where speculation will face greater clampdown and yield smaller returns."

Japan's Nikkei Stock Average opened lower, but recouped the decline and ended 0.1% higher at 18355.26.

Signs of economic expansion and hope for improvement in corporate earnings helped U.S. stocks rebound Monday after the S&P 500 fell 1.1% last week. With the potential for profit-boosting policies from the Trump administration remaining unclear, some analysts said gains will depend on growth in earnings and the economy.

U.S. companies as of March 31 were expected to report their best quarterly earnings since 2011, according to FactSet. "The bar is high," said Jeff Zipper, a portfolio manager at U.S. Bank's Private Client Reserve.

United Continental Holdings and Netflix were among the companies scheduled to report earnings after the close of trading Monday. United Continental rose 1.5% near midday, while the video-streaming company gained 2.8%.

—Yifan Xie contributed to this article.



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