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What's News

Business & Finance

Some investors could be trading with knowledge of U.K. official statistics before they are published, according to a comparison of currency trading data. **A1**

◆ Credit Suisse said it will raise \$4.02 billion of fresh capital and abandon plans for a partial sale of its Swiss unit, as it posted profit that beat expectations. **B1**

◆ Standard Chartered said its restructuring strategy is paying off, raising expectations it will resume paying dividends soon. **B5**

◆ Banco Santander said first-quarter net profit rose, as the bank made progress boosting its capital ratio. **B5**

◆ Hyundai Motor reported first-quarter net income declined, dragged down by a drop in China sales. **B3**

◆ Google is retooling its search engine to prevent sites peddling fake news, hoaxes and conspiracy theories from appearing in its top results. **B4**

◆ Twitter reported its first quarterly decline in revenue since going public, highlighting the stagnation the company is battling. **B3**

◆ State Street posted increases in assets under custody and administration. **B5**

◆ Fox News host Kelly Wright joined a lawsuit alleging racial discrimination at the channel. **B2**

◆ Ticket Monster said it raised \$115 million in fresh funding. **B3**

World-Wide

◆ Trump plans to propose what his administration has billed as the largest tax cut in the U.S.'s history in hopes of spurring economic growth. The plan calls for 15% tax rates on all businesses. **A1**

◆ China launched its second aircraft carrier, in its quest for a navy that can protect Chinese economic and security interests far from its shores. **A1**

◆ Trump told aides to toughen a State Department letter last week that declared Iran in compliance with a landmark nuclear deal. **A3**

◆ Turkish police detained more than 1,000 people suspected of links to a network it blames for a failed coup attempt in July. **A3**

◆ Hong Kong police arrested two pro-independence lawmakers who were disqualified in a dispute over their oaths last year. **A3**

◆ The administration is considering launching trade actions to protect U.S. industries, Commerce Secretary Ross said. **A6**

◆ New Zealand is rethinking its open-door policies amid a global backlash against immigration. **A4**

◆ A meningitis outbreak in Nigeria killed 813 people so far this year. **A3**

◆ Six inmates died and 11 were wounded in a brawl among prisoners at a penitentiary in Venezuela. **A3**

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China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM750; Singapore: \$55.00 (incl GST)
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STOXX 600 388.73 ▲ 0.47% BRENT 52.05 ▼ 0.10% GOLD 1263.60 ▼ 0.16% EURO 1.0876 ▼ 0.48% DLR \$111.60 ▲ 0.45%

Trump Tax Plan Takes Center Stage

Treasury secretary describes proposal as the biggest cut in the country's history

By RICHARD RUBIN
AND NICK TIMIRAO

President Donald Trump was set to propose Wednesday what his administration has billed as the largest tax cut in the country's history in hopes of spurring economic growth. The plan calls for 15% tax

rates on all businesses, deeper than the rate cuts proposed by House Republicans.

Those rates are likely to drive Democratic opposition and spark complications in Congress because changes in tax policy that the Senate can pass on a party-line vote, under the budget procedure known as reconciliation, aren't allowed to create long-run budget deficits.

Treasury Secretary Steven Mnuchin said Wednesday morning that the administration wants permanent policy

changes, but that temporary cuts could be considered, too.

"This is going to be the biggest tax cut and the largest tax reform in the history of our country," he said at a conference in Washington sponsored by The Hill newspaper.

It wasn't clear Wednesday what yardstick the administration was using to describe the president's tax-cut proposal as the largest in history, and it was difficult to judge its size independently before the White House releases the full plan.

Mr. Mnuchin said the tax

proposal would seek to prevent wealthy individuals from taking advantage of a 15% rate for owner-operated small businesses.

"What this is not going to be is a loophole to let rich people who should be paying higher rates pay 15%," he said.

It wasn't clear Wednesday how the administration planned to do that.

Most U.S. businesses are pass-throughs, called that because their income and deductions pass through to their

Please see TAXES page A6

Trump's budget director preps for spending fight **A6**

White House weighing more actions on trade **A6**

Opinion: Growth can solve the debt dilemma **A11**

How Trump's plan would affect Wall Street **B5**



China's first domestically built aircraft carrier was launched during a ceremony in the northeastern port city of Dalian.

China Launches Aircraft Carrier

By JEREMY PAGE

BEIJING—China launched its second aircraft carrier—and the first one entirely home-built—taking another stride in its quest for a world-class navy that can protect Chinese economic and security interests far from its shores.

The new carrier, festooned in red flags and ribbons and with a bottle of champagne smashed over its bow, slid from a dry dock into the water in a shipyard ceremony in the northeastern port city of Dalian on Wednesday, state media reported. About two years of sea trials are expected before the still-unnamed ship becomes fully operational. **Please see CARRIER page A4**

◆ Opinion: China's stealth carrier program **A10**

Currency Trading Data Hint at Leaks In Britain

By MIKE BIRD

Some investors could be trading with knowledge of U.K. official statistics before they are published, according to a comparison of currency trading data for the Swedish krona and British pound.

In Sweden and Britain, two European countries with widely traded currencies, have very different approaches when it comes to policy on who sees official economic data before it goes out.

In Sweden, nobody outside the statistics office, not even the prime minister, is allowed to see sensitive data before release, according to Statistics Sweden, the country's official data provider.

In Britain, over a hundred lawmakers, advisers and press officers get to see some numbers up to a day before it comes out.

The British pound often moves sharply in the hour before data is released, but the krona shows no signs of moving ahead of Swedish numbers,

an analysis of trading data between January 2011 and March 2012 suggests.

During the hour before unexpectedly strong or weak U.K.

Please see U.K. page A2

ERDOGAN'S WIN WAS MARKED BY PROBLEMS

Monitors reported unverified ballots, observers kept from polling places

At lunchtime on April 16, a polling monitor at a school in Turkey's third-largest city made a troubling discovery. Numerous ballot envelopes for the referendum on whether to increase the power of the presidency were missing verification stamps.

By Ned Levin,
Margaret Coker
and Yeliz Candemir

The monitor, in the city of Izmir, had been taught during previous training that un-stamped ballots and envelopes shouldn't be counted. So he reached for a telephone and did what colleagues across the country also were doing: He asked what to do with the suspect ballots.

Two hours later he got his answer—count them.

The chairman for Turkey's Supreme Election Council, known by its Turkish initials YSK, said the decision followed a petition

from a representative of President Recep Tayyip Erdogan's ruling party to declare all un-stamped ballots and envelopes valid.

Even before final vote tallies were published, Mr. Erdogan declared victory, by a margin of 51% to 49%, for constitutional changes that could make him the most influential Turkish leader since the country's founder, Mustafa Kemal Atatürk. Speaking to a crowd outside the presidential mansion, he responded to complaints about the vote in a puzzling way by referencing a Turkish folk tale about a man who stole his horse back from robbers. Translation: What's done is done.

Behind the scenes, many of the irregular ballots were retroactively stamped by local election officials, making it impossible to tell which had been suspect in the first place. Lawyers following the referendum

Please see VOTE page A8

◆ Turkish police make mass arrests **A3**

'Kiwis First'

New Zealand's net migration has rapidly increased, becoming a major issue ahead of an election in September. **A4**

80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
-10,000

2010 '11 '12 '13 '14 '15 '16

New York's Boldest Have A New Chief Buddhist

* * *
Chaplain leads jail staff in meditation;
'step into a private jet'

By CORINNE RAMÉY

NEW YORK—During a recent meditation class, Justin von Bujdoss, a 42-year-old Buddhist lama dressed in a tie and navy windbreaker that read "Chaplain von Bujdoss," instructed his 19 students to close their eyes.

"Imagine a sphere of light above your head," said Mr. von Bujdoss, as the students, seated in a circle, reclined in gray plastic chairs. He instructed them to release the tension in their shoulders, and bring the ball of light down into their arms.

Several students had smiles on their faces. One snored softly. The slamming of a

metal door outside went seemingly unnoticed.

Mr. von Bujdoss isn't teaching this class at a temple. He is the first chaplain dedicated to staff in New York City jails, according to Department of Correction officials. "I'm here to be a Buddhist presence, but without bringing the religion here," he said. His mission, he said, is to provide spiritual care for jail staff and administrators, in a bid to relieve stress. "If I can maintain the container of non-judgment, they can throw whatever they're experiencing at me," he said.

Rikers Island, New York City's sprawling jail complex, Please see LAMA page A8

Oracle #1 SaaS Enterprise Applications Revenue

1,000+ Employees Segment, 2015

#1
Oracle Cloud
14.5%

#2
Salesforce Cloud
12.4%

ORACLE

oracle.com/applications

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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WORLD NEWS

White House Sought Tougher Iran Letter

Trump directed aides to press State Department to harden review of nuclear deal

BY JAY SOLOMON
AND CAROL E. LEE

WASHINGTON—President Donald Trump told aides to toughen a State Department letter last week that declared Iran in compliance with a landmark nuclear deal, senior U.S. officials involved in a policy review said.

Top White House officials said the initial letter the State Department submitted was too soft because it ignored Tehran's destabilizing activities in the Middle East and support for regional terrorist groups, these officials said.

Mr. Trump personally weighed in on the redrafting of the letter, which was sent to Congress on April 18, the officials said. The final version highlighted Iran's threatening regional behavior and called into question the U.S.'s long-term support for the multinational accord.

Mr. Trump also told Secretary of State Rex Tillerson to follow up the next day with a strident public message that the new administration was planning a shift on policy toward Iran, putting the nuclear deal in play, these officials said.

"An unchecked Iran has the potential to travel the same path as North Korea and take the world along with it," Mr. Tillerson said at the State De-



EU envoy Helga Schmid, Iran's deputy foreign minister, Abbas Araghchi, and other diplomats met in Vienna Tuesday to review the deal.

compliance with the nuclear deal and blames the U.S. for preventing other countries from investing in Iran by maintaining bilateral sanctions on Iran.

Congress requires U.S. administrations to notify Capitol Hill every three months about whether Iran is in compliance with terms of the nuclear deal.

The initial State Department letter on Iran, senior U.S. officials said, was drafted by career diplomats who played leading roles during the Obama administration in negotiating and implementing the deal.

Iran is holding presidential elections in May. President Hassan Rouhani, who championed the nuclear agreement, is seeking to win his second four-year term. Some U.S. and European officials have warned the White House that Mr. Trump's tough talk could hurt Mr. Rouhani. His chief opponent, Ebrahim Raisi, is a hard-line Islamic cleric who is viewed as promoting potentially an even-more-aggressive line internationally.

Top aides to Mr. Trump have said they believe Supreme Leader Ayatollah Ali Khamenei and top commanders in the IRGC make all major decisions on foreign affairs and national security. They have said Tehran's military interventions in Syria, Iraq and Yemen have actually increased since the nuclear deal and Mr. Rouhani's election. Iran says it is seeking to combat terrorism.

—Laurence Norman
in Brussels
contributed to this article.

partment on April 19.

The episode highlighted the divisions between Mr. Trump's hard-line position on Iran and the approach taken by some career State Department diplomats and many European allies.

State Department officials didn't respond to a request to comment on Mr. Tillerson's role in the exchange.

The nuclear agreement, which was implemented in January 2016, constrained Iran's nuclear capabilities in return for the lifting of most international sanctions, including some unilateral penalties imposed by the U.S. Treasury Department.

The White House is conducting a 90-day review of its

Iran policy and considering steps to significantly ratchet up U.S. efforts to push back against Iran.

Potential steps include sanctions against hundreds of Iranian companies that would be vetted for suspected ties to Tehran's elite military unit, the Islamic Revolutionary Guard Corps, or IRGC, these officials said.

The Trump administration also is exploring ways to enhance international efforts to combat Iran's ability to smuggle weapons to its military proxies in Syria, Lebanon, Iraq and Yemen.

The Pentagon has announced its intention to more aggressively challenge Iran's

naval presence in the Persian Gulf.

In recent days, Mr. Trump and other senior administration officials have publicly questioned the terms of the nuclear deal, which was negotiated by the Obama administration over three years. They have voiced skepticism that the U.S. and its allies could separate Iran's nuclear program from its other destabilizing activities.

In a White House where advisers have often been divided on security issues, the pursuit of a tougher Iran policy presents a rare case of broad consensus.

State Department spokesman Mark Toner said on Mon-

day that the White House policy review aims to look at "how we take a more comprehensive look at Iran and its bad behavior in the region."

Some White House officials said they expect the U.S. won't withdraw from the nuclear deal, but enforce it to the letter and possibly reinstate sanctions that were lifted as part of the accord under different reasons, such as human-rights abuses or Iran's ballistic-missile tests.

Iran has ruled out any renegotiation of the agreement. It also has said any new sanctions imposed by the Trump administration would be viewed as a violation of the deal. Iran also says it is in

France Says Attack Bears Syria 'Signature'

Turkish Police Make Mass Arrests

BY NED LEVIN

ISTANBUL—Turkish police detained more than 1,000 people suspected of links to a network Turkey blames for a failed coup attempt last July.

The coordinated nationwide raids on Wednesday targeted followers of the U.S.-based cleric Fethullah Gulen. Interior Minister Suleyman Soylu said the people were "covert imams" and had "infiltrated Turkey's police force and were working to direct it from the outside."

Mr. Gulen and his organization, called Hizmet in Turkish, have denied any role in the military coup attempt.

"This is an important step for the Republic of Turkey," Mr. Soylu said of the raids, some of the biggest against the alleged Gulen network in months. A total of 1,009 people were detained in 72 provinces, and the raids were continuing, he said.

The raids came after Turkey's President Recep Tayyip Erdogan secured an important political victory last week. In a referendum marred by irregu-



Suspects linked to a banned network were arrested in Kayseri.

larity, voters narrowly passed a series of amendments to the Turkish constitution that will center power around the president. Most of the changes will take effect after the next elections, currently scheduled for 2019.

More than 100,000 Turkish civil servants have been fired or detained since the failed coup on July 15, in what government officials describe as a

vital effort to root out Mr. Gulen's followers from the bureaucracy and prevent subversion.

At one extreme, those detained include military officers who have since been put on trial for their alleged key roles in the coup attempt. At the other, some people say they have been detained, fired or suspended when all they did

was subscribe to a Gulen-affiliated newspaper or open an ac-

count at a Gulen-affiliated bank. Mr. Gulen was once allied with Mr. Erdogan in a joint effort to capture power from Turkey's secular establishment. In 2012, the alliance collapsed over disagreements about power sharing.

Turkey has requested that the U.S. extradite Mr. Gulen so he can stand trial in his homeland on charges including leading a terrorist organization, organizing a coup attempt and a variety of financial misdeeds. He has denied any wrongdoing. U.S. officials have said they find the evidence that Turkey provided about Mr. Gulen's alleged involvement in the coup insufficient to support an extradition request.

Late last summer, top Turkish government ministers met with retired Army Lt. Gen.

Mike Flynn, then an adviser to the Trump campaign who later served briefly as national security adviser to President Donald Trump, to discuss ideas about how to get Mr. Gulen to Turkey without going through the ex-

tradition legal process.

The French government's findings support previous assertions by Turkey, along with the U.S. and other Western countries, that the Syrian regime was behind the strike against the town.

They also back suggestions by the Trump administration that the Syrian government has retained chemical weapons, despite President Bashar al-Assad's insistence that his government relinquished all of its chemical weapons following a deal brokered by the U.S. and Russia in 2013.

The French government's findings support previous assertions by Turkey, along with the U.S. and other Western countries, that the Syrian regime was behind the strike against the town.

They also back suggestions by the Trump administration that the Syrian government has retained chemical weapons, despite President Bashar al-Assad's insistence that his government relinquished all of its chemical weapons following a deal brokered by the U.S. and Russia in 2013.

Turkey and a watchdog group, the Organization for the Prohibition of Chemical Weapons, have said that sarin was used in the April 4 attack.

The Turkish finding was based on blood and urine samples of victims who received medical treatment or were autopsied in Turkey. Ankara supports the rebel groups fighting to take out the Assad regime.

Its six-page report, along with an 11-page annex, the French government said its intelligence services took the "necessary steps" to obtain its own blood, as well as soil samples, from the attack.

In those samples, investigators detected the chemicals hexamine and diisopropyl methylphosphonate, or DIMP. Citing information gathered by French intelligence, the report says that the recipe used by the regime to manufacture sarin includes hexamine as a stabilizer and produces DIMP as a byproduct.

Pope Francis will pursue efforts to reach out to Muslims during a visit to Egypt this week that comes as rampant Islamist terrorism is posing the greatest test to dialogue between the faiths since the Vatican made it a priority a half-century ago.

By Francis X. Rocca
in Vatican City and
Dahlia Khalil in Cairo

The pope has earned approval in the Muslim world for his attempts to improve relations. He has washed the feet of Muslims during Holy Week liturgies and, when he brought a dozen Syrians back with him from a Greek refugee center last year, all were Muslims.

He condemned the 2015 massacre in Paris of the staff of Charlie Hebdo after it mocked the Prophet Muhammad, but also said those who deride other faiths can expect a strong response.

Yet some Catholics also want the pope to challenge Muslims more vigorously to repudiate religiously inspired violence and intolerance, amid continuing Islamist terrorism and persecution of Christians in some Muslim-majority countries—including church bombings in Egypt on Palm Sunday that killed more than 40 people.

The pope should call on Muslim leaders "to reinterpret the Quran for today in a way that fosters peace," said the Rev. Samir Khalil Samir, an Egyptian Catholic priest and professor at the Pontifical Oriental Institute in Rome, who said he raised the subject with Pope Francis in June 2016.

The Vatican spokesman, Greg Burke, said that the "pope is constantly condemning those who kill in God's name. What he doesn't want to do is encourage a clash of civilizations."

Such concerns could come to the fore when Pope Francis arrives on Friday in Egypt, where he will speak that day at Al-Azhar University, considered the most authoritative religious institution in the Sunni Muslim world.

The words of the pope—who has said "authentic Islam" is "opposed to every form of violence"—will be scrutinized in a country with a large Christian minority.

Egyptian President Abdel Fattah Al Sisi has in the past blamed intolerant interpretations of Islam for the "violence

and terror and killing and destruction that we witness all around us today," and called on Al-Azhar to "revolutionize our religion" by rejecting "extremism and its erroneous understanding of Islam."

Al-Azhar has rejected such criticisms, saying in a statement last week that its instruction promotes "peace and stability among Muslims themselves and between Muslims and others."

The Second Vatican Council established dialogue between the faiths as a priority for the Catholic Church in the 1960s.



Pope Francis, pictured here after Palm Sunday Mass, has said 'authentic Islam' opposes violence.

NIGERIA

Meningitis Outbreak Kills More Than 800

A meningitis outbreak in Nigeria has killed 813 people so far this year, the country's health minister said, as Africa's most populous country and aid organizations attempt to tackle the surge in infections.

The government on Wednesday approved a house-to-house search in northern Nigeria to identify those afflicted with meningitis for vaccination and treatment, said Isaac Adewole after a cabinet meeting under Vice President Yemi Osinbajo.

The West African nation in April launched a mass vaccination campaign as part of its emergency response to the outbreak in its northwestern states, the Nigeria Center for Disease Control has said. The NCDC said the infection killed 33 people in 2016.

—Reuters

VENEZUELA

Inmates Die in Brawl

A top prison official says six inmates died and 11 others were wounded in a brawl among prisoners at a penitentiary in eastern Venezuela.

Prison Affairs Minister Iris Varela said that the violence erupted at Puente Ayala penitentiary in Anzoategui state.

—Associated Press

WORLD NEWS

Backlog Hobbles Brazilian Court

Slow churn may delay by years prosecution of high-ranking corruption suspects

BY PAULO TREVISANI
AND SAMANTHA PEARSON

BRASÍLIA—Brazil's Supreme Court recently gave its approval to prosecutors to investigate scores of senior political figures for alleged corruption, but the court itself will have to overcome some unusual challenges to put them on trial. Not least is its backlog—as of Tuesday—of 54,951 cases.

Just last week, the court ruled on the long-running dispute about which soccer team deserved the right to claim the 1987 championship.

"We can't go on like this," an exasperated Chief Justice Cármén Lúcia Rocha said in a rare interview.

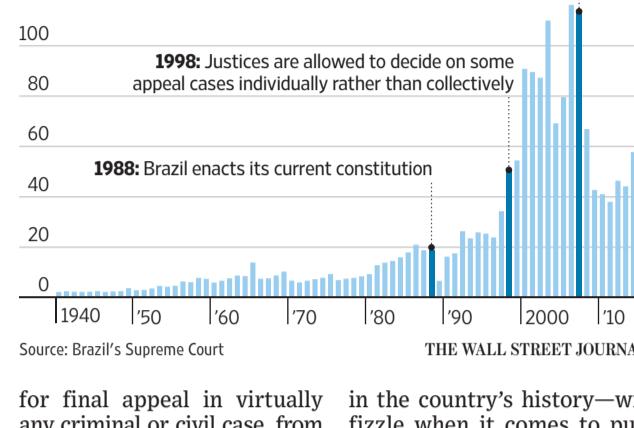
Chief Justice Rocha said it would likely take years to wrap up the trials of any sitting politicians that may result from the current "Car Wash" probe into bribery and kickbacks at state-run oil company Petrobras.

Brazil's constitution makes the Supreme Court the venue

On the Docket

Brazil has taken steps to reduce the Supreme Court's caseload but it still faces a huge influx of cases each year.

Number of new cases accepted



Source: Brazil's Supreme Court

2007: The high court is allowed to decline some appeal cases

120 thousand

100

80

60

40

20

0

1998: Justices are allowed to decide on some appeal cases individually rather than collectively

1988: Brazil enacts its current constitution

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for final appeal in virtually any criminal or civil case, from divorces to stolen cellphone batteries.

Only the Supreme Court is allowed to try high-ranking political figures. Given the caseload, politicians who are charged are rarely brought to trial, effectively affording them immunity while in office. In recent years, Brazil's congress has included lawmakers accused of murder, rape and involvement in the drug trade.

That has many Brazilians concerned that the Car Wash probe—the biggest of its kind

in the country's history—will fizzle when it comes to putting top politicians behind bars, despite the Supreme Court authorization to prosecutors this month to open investigations into one-third of the country's cabinet members, more than 60 congressmen and four former presidents.

Since the probe began in 2014, around 90 people—mostly businessmen, lawyers, bankers and black-market money dealers—have been convicted. The few politicians brought to trial, including for-

mer house speaker Eduardo Cunha, had been booted out of Congress, allowing them to be tried as ordinary citizens. To make that happen in more cases would require significant political momentum.

At the current rate, Brazilians will still have no idea who is actually guilty when they go to the polls in next year's presidential elections. It took the court seven years to try politicians over the smaller "Mensalão" vote-buying scandal that erupted in 2005.

With so many businessmen convicted in Car Wash, the Supreme Court is under pressure to make sure guilty politicians meet the same fate, said Matthew Taylor, a professor who specializes in Brazil's legal system at American University in Washington.

"This is a troubling two-track system," he said. "The [faster-moving lower] courts are generating a great deal of public angst about corruption in Brazil while the high court is unable to deal with even the most basic and straightforward cases."

Chief Justice Rocha said she supports moves to restrict politicians' legal privileges, allowing for lower courts to determine their fates in some cases. Substantial change,

however, could come only through legislation passed by lawmakers themselves.

Brazil's high court likely has the highest caseload in the world as a proportion of the country's population, a problem that is true of the country's entire judiciary, said Ivar Hartmann, a constitutional scholar at Brazil's Getulio Vargas Foundation. In 2015, there were 102 million lawsuits pending across all courts, according to the latest data from Brazil's National Council of Justice—equivalent to one lawsuit for every two Brazilians.

The Supreme Court's 11 justices manage to process roughly as many cases as they accept, checking off around 30,000 so far this year. They don't tackle the docket in chronological order, and the backlog includes cases that entered the court system decades ago.

That means the court could prioritize Car Wash cases. But while appeal cases tend to flow more quickly because much work has already been done in lower courts, those involving sitting politicians start at the Supreme Court, posing a much greater logistical challenge for a staff already juggling thousands of appeals.



Prime Minister Viktor Orbán.

Brussels Takes On Hungary Leader

BY VALENTINA POP

BRUSSELS—The European Union's executive branch is ramping up its defense against critics, taking an unusually firm stand against Hungarian Prime Minister Viktor Orbán over his "Stop Brussels" campaign and moves against foreign-funded universities and nongovernmental organizations.

The European Commission Wednesday took legal action against the Hungarian government in response to its recently adopted law targeting the U.S.-funded Central European University in Budapest. The commission said the law, which obliges CEU to obtain permission from the Hungarian government to continue operations, is in breach of the bloc's rules on freedom to provide services, academic freedom, the right to education and international obligations under trade law.

The commission also criticized Mr. Orbán for including "highly misleading claims and allegations" about the EU in his public consultation dubbed "Stop Brussels. The questionnaire, sent to eight million voters in Hungary, suggests that EU's migration policies have enabled terror attacks and that foreign-funded organizations "jeopardize" Hungary's independence.

"The EU is not and has never been about Brussels; it's a project driven and designed by its member states, each of which has decided individually and democratically that this is the path they wish to adopt. This includes Hungary," said European Commission Vice-President Frans Timmermans, who debunked point by point Mr. Orbán's "Stop Brussels" questionnaire in a debate in the European Parliament.

The EU took action against Budapest for targeting Central European University.

Mr. Timmermans warned Mr. Orbán not to go ahead with a draft law obliging NGOs that receive foreign aid to register with the government, a move critics say is putting Hungary on par with Russia. In addition, he said, more legal action could follow on Hungary's controversial asylum law allowing applicants to be detained in containers, on pregnant workers' rights and on discrimination of Roma children in schools.

A defiant Mr. Orbán brushed off criticism during that same parliamentary debate and said that his government's commitment to the EU is "unquestionable," but that "in many aspects we are unhappy with how the EU works." The Stop Brussels consultation is simply asking how the government should act in Brussels on issues it disagrees with, he said. And the university law is not targeting CEU specifically, but aims to create a level playing field with Hungarian universities, Mr. Orbán said.

He suggested that the entire row was stoked by George Soros, the Hungarian-American billionaire who founded the university and several human rights organizations in the country and abroad. Mr. Soros has openly criticized Mr. Orbán's policies on migrants and minorities and was due to meet commission chief Jean-Claude Juncker on Thursday.

CARRIER

Continued from page A1
nese and Western military experts say.

"We aim to safeguard our sovereignty and state interests and world peace by developing our military forces including maritime forces," a Chinese Foreign Ministry spokesman said at a regular news briefing on Tuesday.

China has been rapidly modernizing and expanding its naval operations over the past two decades, partly to ensure military superiority over Asian neighbors, some of which contest Chinese territorial claims, and to prevent the U.S. from intervening in regional conflicts.

India has one active carrier—a refurbished Soviet ship—and launched its first indigenous model in 2013, but that ship isn't expected to become operational until the early 2020s. Japan's has two large helicopter carriers but none capable of launching jet fighters.

China has also been sending ships and submarines deep into the Indian and Pacific oceans in recent years. That is part of a longer-term strategy to establish itself as a global military power capable of protecting its overseas economic interests, especially oil and gas supplies, as well as its expatriate citizens, military experts say.

China's first two carriers are both conventionally powered and significantly smaller than the U.S. Navy's 10 nuclear-powered Nimitz class carriers, which can sail for far longer without refueling and each handle about double the number of aircraft.

The U.S. also has decades of experience of operating carriers, whereas Chinese pilots be-

Rulers of the Waves

As China begins trials of its second aircraft carrier, provisionally known as Type 001A, the U.S. still dominates the world's oceans.

Here are the countries with the biggest aircraft carriers.*

NAME	USS Gerald R. Ford	Type 001A	Kuznetsov	INS Vikramaditya	Queen Elizabeth	Charles de Gaulle
NATION	U.S.	CHINA	RUSSIA	INDIA	U.K.	FRANCE
AIRCRAFT CAPACITY	52-75	Not available	37	18-30	Approx. 40	30
CREW	4,550	Not available	3,452	1,326	1,681	2,571
DISPLACEMENT	101,605 In metric tons	Approx. 50,000	59,439	46,129	65,000	43,182

*The list doesn't include Brazil, which is decommissioning its carrier, and Italy and Thailand, whose sole carriers are relatively small.

Sources: U.S. Navy; Jane's Fighting Ships; Indian Navy

gan learning to take off and land at sea only five years ago and their capabilities remain unclear. Still, China's carriers significantly boost its efforts to build a blue-water navy, capable of conducting combat and other missions far from its shores.

"China wants to put an emerging trickle of aircraft carriers at the center of basic blue-water operations: dazzling with naval diplomacy, strengthening influence across strategic sea lanes, and responding to emergencies that don't require fighting other great powers," Mr. Erickson said.

China ultimately needs at least three aircraft carriers to have one conducting operations, one undergoing repairs and one being used for training, at all times, military experts said. But the country

He said other evidence of China's long-term plans included constructing a new class of supply vessels modeled on leading U.S. counterparts, a new class of cruisers designed in part to protect carriers, and its first overseas naval facility, in the East African nation of Djibouti.

China appears to be priming other ports to support its growing seaward presence," Mr. Erickson said.

China ultimately needs at least three aircraft carriers to have one conducting operations, one undergoing repairs and one being used for training, at all times, military experts said. But the country

could be aiming to deploy as many as six, these people say.

Rear Adm. Zhang Zhaozhong, a professor at China's National Defense University, was quoted in state media predicting that over the next 20 years, China would produce two larger conventionally powered carriers, with steam-powered catapult systems, and two even bigger nuclear-powered ones with electromagnetic catapult systems.

The U.S. Department of Defense said in an annual report on China's military last year that "China's current aircraft carrier and planned follow-on carriers will extend air-defense umbrellas beyond its immediate periphery."

The widely anticipated launch comes six years after China dispatched its first carrier, the Liaoning, which is based on the refurbished hull of an old Soviet model, the Varyag, purchased from Ukraine in 1998.

range of coastal systems and help enable task group operations in far seas."

It said China's next generation of carriers would probably be able to sail for longer and launch more-varied types of aircraft, including early warning and electronic warfare, "thus increasing the potential striking power" of a Chinese carrier group "beyond its immediate periphery."

The widely anticipated launch comes six years after China dispatched its first carrier, the Liaoning, which is based on the refurbished hull of an old Soviet model, the Varyag, purchased from Ukraine in 1998.

Mr. Timmermans warned Mr. Orbán not to go ahead with a draft law obliging NGOs that receive foreign aid to register with the government, a move critics say is putting Hungary on par with Russia. In addition, he said, more legal action could follow on Hungary's controversial asylum law allowing applicants to be detained in containers, on pregnant workers' rights and on discrimination of Roma children in schools.

A defiant Mr. Orbán brushed off criticism during that same parliamentary debate and said that his government's commitment to the EU is "unquestionable," but that "in many aspects we are unhappy with how the EU works." The Stop Brussels consultation is simply asking how the government should act in Brussels on issues it disagrees with, he said. And the university law is not targeting CEU specifically, but aims to create a level playing field with Hungarian universities, Mr. Orbán said.

He suggested that the entire row was stoked by George Soros, the Hungarian-American billionaire who founded the university and several human rights organizations in the country and abroad. Mr. Soros has openly criticized Mr. Orbán's policies on migrants and minorities and was due to meet commission chief Jean-Claude Juncker on Thursday.

New Zealand Cracks Down on Immigration

BY BEN COLLINS

WELLINGTON, New Zealand—In recent years, this remote South Pacific country has caught the eye of Hollywood filmmakers, Chinese billionaires and even a future adviser to U.S. President Donald Trump. Now, the picturesque nation of less than five million people is rethinking its open-door policies amid a global backlash against immigration.

New Zealand experienced its strongest migration ever in the year through March, official data published on Wednesday show. While credited by lawmakers for keeping the country from recession, the flow of new arrivals is putting a strain on infrastructure, schools and a frothy real-estate market.

The ruling center-right National government this month unveiled new curbs on migration, including pay thresholds designed to keep out unskilled migrants who compete with locals for lower-paid jobs. "The government has a 'Kiwis first' approach to immigra-



Immigration Minister Michael Woodhouse spoke to a refugee student at a U.N. education center in Malaysia in January.

tough line on immigration.

Migration has become a hot-button issue in many developed economies where mainstream political parties face a populist backlash.

The debate is relatively recent in New Zealand, which for years had experienced a brain drain as college graduates and laborers moved overseas for better pay and opportunities.

The country was a net exporter of jobs and skills as recently as 2012, when a shortage of construction workers needed to rebuild the city of Christchurch following deadly earthquakes lured many citizens home and encouraged foreign laborers to migrate.

Lately, interest in New Zealand has been spurred in part by global political upsets. In

quiries from Americans increased, albeit briefly, after Mr. Trump's election in November, as did interest from Britons following last year's Brexit vote, according to the immigration department.

While that interest didn't translate to a jump in visa applications, New Zealand gained a record 71,900 migrants in the year to March 31, maintaining a rising trend over the past five years, Wednesday's government data showed.

Officials say the wave of migrants helped New Zealand's economy grow at 3.1% in 2016, outpacing most other developed countries. Without the influx of new arrivals, "quite simply, fruit and grapes would be rotting on the vine, there would be fewer people to milk our cows or look after our elderly," Mr. Woodhouse said.

Still, some economists say many New Zealanders aren't benefiting from population growth: the economy shrank by 0.2% between October and December when measured on a per capita basis.



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U.S. NEWS

Russia Probe Looms for Justice Deputy

New official will face immediate scrutiny over investigation into 2016 election

By ARUNA VISWANATHA

Rod Rosenstein, confirmed as the Justice Department's No. 2 official, will face immediate scrutiny on a potentially volatile question: how he will run the department's probe into alleged Russian meddling in the 2016 election.

Mr. Rosenstein served on the independent Whitewater investigation that led to former President Bill Clinton's impeachment, and was assigned by the Obama administration to help lead a leak investigation. Now he faces pressure from Democrats to appoint a special prosecutor—outside the department's ordinary chain of command—for the Russia probe.

But in an interview before his confirmation late Tuesday, Mr. Rosenstein voiced skepticism of such out-of-the-ordinary investigative arrangements. "Nobody thought it was efficient," he said of Kenneth Starr's independent counsel office, which was created under a statute that Congress has since allowed to expire.

"For some people, there is political significance to what the chief investigator is called, but for me, the issue is how is the investigation being conducted," Mr. Rosenstein said. "That should have nothing to do with what you call the chief investi-



Deputy Attorney General Rod Rosenstein, center, faces pressure from Democrats to appoint a special prosecutor for the Russia probe.

at the Justice Department. He was appointed as the U.S. attorney in Maryland under President George W. Bush, and was retained by President Barack Obama. Mr. Rosenstein is described by colleagues as a deliberative, unassuming prosecutor who rarely speaks about politics. That contrasts with Mr. Sessions, an outspoken conservative and former senator who has vowed to overturn Obama-era policies.

Mr. Rosenstein now will be tasked with reversing some policies he enforced under Mr. Obama, notably undertaking a tough-on-crime strategy to reduce violent crime, as murder rates have ticked up in some cities in recent years.

But it is his oversight of the Russia investigation that is likely to garner most attention in coming months. It isn't clear if Mr. Rosenstein will follow Mr. Comey's lead and speak publicly about the results. "My philosophy is, we conduct our investigations and do our talking in court. Now there are exceptions to that, there are appropriate times when we need to" speak publicly, Mr. Rosenstein said.

His record suggests he will be deliberative almost to a fault. "He would listen to everybody, weigh all sides [and] do research until three o'clock in the morning," said Barbara Sale, who worked for Mr. Rosenstein in the Maryland U.S. attorney's office. "At which time he would send a question."

—Beth Reinhard contributed to this article.

gator....There are plenty of people in the Department of Justice who are capable of handling such investigations, he said.

But Democrats like Sen. Richard Blumenthal of Connecticut say there is more to it than that. In an inquiry like the Russia probe, which could enmesh the president's top associates, they say, it is critical

to appoint an investigator outside the chief executive's chain of command.

The issue highlights the questions facing the 52-year-old Mr. Rosenstein, who will have no time to relax quietly into the job. With President Donald Trump's former campaign under scrutiny, and Attorney General Jeff Sessions

recusing himself as a former Trump campaign adviser, it falls to Mr. Rosenstein to supervise the politically fraught investigation. Mr. Trump and his staff have dismissed the allegations, as has Russia.

Among Mr. Rosenstein's tasks is overseeing James Comey, director of the Federal Bureau of Investigation, who

has become a political target of sorts for his handling of politically sensitive probes and his disclosures about them. Mr. Comey has said he felt obligated to inform the public and Congress about some developments in such probes.

Mr. Rosenstein may get some protection from his bipartisan three-decade career

White House Weighing More Actions on Trade

By JACOB M. SCHLESINGER AND BOB DAVIS

WASHINGTON—The Trump administration is considering launching trade actions to protect the U.S. aluminum, semiconductor and shipbuilding industries, while at the same time ramping up free-trade talks with the European Union, Japan and the U.K., Commerce Secretary Wilbur Ross said.

Mr. Ross also left open the possibility that the U.S. government might intervene to help prop up Westinghouse Electric Co., the nuclear-reactor company that filed for bankruptcy protection in the U.S. last month, and may also try to block any new foreign entities from investing in the firm. Westinghouse is a unit of Japan's Toshiba Corp.

"Having a nuclear-power capability is obviously a matter

of national security," Mr. Ross said in an interview Tuesday.

President Donald Trump has turned to Mr. Ross to play a lead role shaping his "America First" trade policy, and the 79-year-old billionaire investor was speaking after having overseen two major trade actions over the past week: launching a probe into curbing global steel imports because of national-security concerns and moving to impose tariffs on Canadian lumber products over allegedly unfair subsidies.

Mr. Ross made clear in the interview that he saw those actions as just the beginning of a more aggressive trade-enforcement strategy.

At the time he launched the steel probe last week, the administration named six "core industries" for its trade agenda—steel, aluminum, vehicles, aircraft, shipbuilding and

semiconductors. Shipbuilding is "essentially demolished....We clearly need shipbuilding as an industry," he added.

At the same time, Mr. Ross laid out an ambitious agenda for renegotiating existing trade pacts and launching new ones.

He said he expected to complete a rewrite of the North American Free Trade Agreement this year, which would be a highly accelerated timetable compared with the usual pace of trade talks. Negotiations can't start until late July at the soonest because the administration needs to give Congress notice of 90 days before starting talks. Notice hasn't yet been given.

"Hopefully they could get finished pretty quickly," Mr. Ross said of the pending Nafta talks.

Mr. Trump has said he would like to negotiate a raft of

new bilateral trade agreements.

Asked to detail that plan, Mr. Ross named the U.K. and the EU, and said the administration was considering reopening talks to revamp a free-trade deal with South Korea and re-

invigorate one with China.

Even though Mr. Trump pulled the plug on one Obama-era trade initiative—the 12-nation Trans-Pacific Partnership—Mr. Ross said the administration was open to re-

viving two dormant Obama trade pacts that had been negotiated but never completed: the Transatlantic Trade and Investment Partnership with the EU and the Bilateral Investment Treaty with China.



Commerce Secretary Wilbur Ross said he expected a rewrite of Nafta to be completed this year.

been working for months under the assumption that they will need to pass legislation without Democratic votes.

"I hope they won't stand in the way," Mr. Mnuchin said. "As you know, there's multiple ways of doing this, and the president is determined that we will have tax reform."

Mr. Mnuchin said the administration's proposal won't endorse the border-adjustment feature that is central to the House GOP plan. The provision attempts to raise revenue by taxing imports, but not exports. Mr. Mnuchin said the administration wasn't opposed to the provision in concept, and that he liked aspects of it. But he said: "We don't think it works in its current form."

Mr. Ryan hasn't backed down on the border-adjustment idea, but he said Wednesday that he knows the proposal needs modifications in response to criticism from retailers and others.

"We don't want to have severe disruptions," Mr. Ryan said.

To advance legislation through the Senate with a 51-vote majority, a tax bill can't add to deficits beyond a decade. For example, tax cuts passed by former President George W. Bush, a Republican, lapsed after a decade because they increased deficits, though Congress later made some provisions permanent.

"The goal is to make it permanent, but there's lots of levers here," Mr. Mnuchin said. "If we have them for 10 years, that's better than nothing, but we'd like permanence to it."

Mulvaney Preps for Spending Fight

By PETER NICHOLAS AND NICK TIMIRAO

WASHINGTON—When health-care reform collapsed in Congress last month, President Donald Trump's budget director, Mick Mulvaney, says he felt he deserved much of the blame.

He apologized to the president for failing to grasp the divisions inside a Republican caucus in the House of Representatives that he had been part of for six years as a congressman. The depth of mistrust between conservative and moderate factions within the GOP was nothing he had foreseen, he says, and hampered his role as a White House emissary on one of the administration's top priorities.

"I told the president that I feel like I let him down on the first run through at health



bill was me."

The collapse of the health-care push appears to have done little to diminish Mr. Mulvaney's standing in an administration known for its intramural fractiousness. White House chief strategist Steve Bannon calls him a "rising star" who "knows the math and the Hill."

And it is Mr. Mulvaney who is taking the lead role in negotiations with Congress over a spending measure that would avert a partial government shutdown at the end of this week, coinciding with the president's 100th day in office.

He made a late push to include in the spending bill funds to start construction of a wall along the border with Mexico—a central campaign promise of the president. Facing resistance from lawmakers, how-

ever, Mr. Trump on Monday night said he could wait until later in the year for money to build the wall. Lawmakers and the White House continue to wrangle but few expect the government shutdown to take effect this weekend.

After that, Mr. Mulvaney's ability to navigate Capitol Hill will again be put to the test. It will be up to him to present Mr. Trump's initial budget proposal for the fiscal year that starts in October.

That blueprint could form the basis of a congressional budget resolution that Republican leaders want to use to advance a sweeping tax overhaul through Congress by year's end, a feat that would fulfill another of Mr. Trump's key campaign pledges.

Kristina Peterson contributed to this article.

TAXES

Continued from page A1

owners' individual returns. That group includes many small firms, but also large global law firms, hedge funds and the GOP president's own real-estate and branding businesses. These businesses don't

pay the corporate tax rate.

The White House was scheduled to release general principles for tax legislation Wednesday afternoon, which will open months of negotiations in Congress. Other administration officials have said a full proposal wasn't likely before June and won't be included in the release of the president's budget next month.

House Speaker Paul Ryan said Republicans have consensus on the goals and aims for reducing tax rates.

"We're in agreement on 80%, and then that 20%, we're in the same ballpark," the Wisconsin Republican said.

Sen. Chuck Schumer of New York, the chamber's Democratic leader, said the proposal to cut tax rates for pass-through businesses would just benefit high-income people like the president himself.

"The very wealthy are doing pretty well in America," Mr. Schumer said on the Senate floor Wednesday. "God bless them. Let them do well. They don't need another huge tax break."

Mr. Mnuchin said he hoped Democrats would support the plan, but Republicans have

'Sanctuary Cities' Setback Prompts Tweets

By MICHAEL C. BENDER

WASHINGTON—The morning after a judge ruled that President Donald Trump's executive order threatening to pull funding from so-called sanctuary cities is likely unconstitutional, Mr. Trump criticized the "messy" federal court system and accused his opponents of targeting a particular judicial district with lawsuits aimed at blocking his

executive actions.

"Out of our very big country, with many choices, does everyone notice that both the 'ban' case and now the 'sanctuary' case is brought in the Ninth Circuit, which has a terrible record of being overturned (close to 80%)," Mr. Trump posted on Twitter.

"They used to call this 'judge shopping' Messy system."

"First the Ninth Circuit rules against the ban & now it

hits again on sanctuary cities—both ridiculous rulings," he wrote in a second post. "See you in the Supreme Court!"

Mr. Trump was reacting to a federal district judge's ruling Tuesday that the president's executive order threatening to pull funding from so-called sanctuary cities is likely unconstitutional. There is no definition of a sanctuary city and local policies vary, but they all limit in some way cooperation with fed-

eral immigration enforcement.

In his tweet, Mr. Trump appeared to be referring to the reversal rate for Ninth Circuit cases heard by the Supreme Court in its 2015-16 term. In that term the appeal court had an 80% reversal rate that nearly matched the 76% reversal rate for the 70 cases decided by the court in that term, according to Scotusblog.com, a website operated by appeals lawyer Thomas Goldstein.

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GUANGZHOU'S TRANSFORMATION INTO AN INNOVATION HUB



By MA XIAOCHENG, WANG PAN, YE QIAN

After comparing several cities in China, Dr. Lietao Li, co-founder and CEO of Lion TCR, a Singapore-based clinical-stage biotechnology company, decided to establish an operation in China's southern city of Guangzhou.

"Guangzhou is an ideal city for bio-pharmaceutical companies, especially when it comes to industry and talent support," he said. "This is more important to us than the tax and land incentives offered by other Chinese Cities."

Lion TCR, which develops T cell therapy against life-threatening viral infections and viral-related cancers, settled in Sino-Singapore Guangzhou Knowledge City in Guangzhou's Development District in 2016.

For nearly three decades, Guangzhou has been the third largest city in China, behind only Shanghai and Beijing. In 2016, the city's gross domestic product reached around 2 trillion yuan, equivalent to that of Singapore and neighboring Hong Kong. The capital city of Guangdong Province, Guangzhou, is at the core of the Pearl River Delta, one of the most dynamic economic areas in the world. It also lies at the heart of the proposed Guangdong-Hong Kong-Macao Greater Bay Area, a new global city cluster which China is forming as part of its move for higher-level, cross-border collaboration.

TURNING INTO AN INNOVATION CENTER

Lion TCR is one of many companies setting up operations in Guangzhou. Last year saw the signing of an agreement with Cisco Systems to establish a head office for innovation in Guangzhou's Panyu District. The company will develop technology based on its branded Internet of Everything (IoE) strategy and the Internet of Things (IoT), to create a cloud platform to serve industry.

"We believe this project is a tremendous opportunity to bring our capabilities, together with that of our partners, to make this an innovation showcase for the world," said Chuck Robbins, chief executive officer of Cisco.

Cisco's and Lion TCR's decision to locate in Guangzhou is among the latest signs that international innovation is flowing into the city. As part of China's central government policy of innovation-driven development, there are now 4,740 high-tech enterprises based in Guangzhou, up from 1,920 a few years ago. Science and technology are contributing to more than 60 percent of the city's gross domestic product, according to the Guangzhou Science, Technology



and Innovation Commission, which oversees science and technology affairs under the municipal government.

CREATING AN IDEAL COMMERCIAL ENVIRONMENT

However, Guangzhou has even more ambitious goals. Known as an international trade hub for thousands of years, the city plans to become "the nation's innovation hub with global influence by 2020." To reach its goal of "building an open, flexible and free innovation ecosystem," the municipal government is increasing its spending on science and technology, which reached 11 billion yuan in 2017. The city is focusing on providing an ideal commercial environment; emphasizing the rule of law, market-oriented system and international business-friendly environment.

Guangzhou is already one of the most business-friendly cities in China, topping Forbes China's best cities for business list five times over the past six years.

This nurturing environment is enabling new commercial models. CoWork, a newly-found company that provides shared work space for entrepreneurs, startups and small businesses, shows how Guangzhou can help young people make their business dreams a reality. Located in Guangzhou's CBD, it transformed traditional offices into collaborative work spaces in which entrepreneurs share space and office services.

Wu Jiayao, co-founder of CoWork, said the company has attracted more than 100 startups over the past year, and it has 100,000 members worldwide. "We want to change how people work, and build an innovation community that connects and shares ideas."

Guangzhou is already home to 180 incubators and 84

maker spaces that breed thousands of startups. According to U.S. business magazine Fast Company, the city hosts 13 of China's 50 most innovative companies. The centralization of R&D in Guangzhou is also an advantage, with 79 universities, 141 research institutes and 19 national key laboratories based nearby.

CUTTING BACK THE RED TAPE

To encourage innovation and speed, Guangzhou is streamlining carefully its government administration, and is delegating power to lower levels of government. Effectiveness, convenience and transparency are driving this government reform. At the same time, it is encouraging the support of financial institutions to small and medium-sized technology companies.

Last month, Foxconn Technology Group, the world's largest electronics contractor and a major supplier to Apple, began construction of a new panel factory in Guangzhou's Zengcheng District. The 61-billion-yuan factory will mainly produce the 10.5 generation panel, substrate glass and related product lines.

"It will not only be a panel-processing factory, but demonstrate the concept of building an ecological town featuring high-end technology in the city of Guangzhou," said Terry Gou, CEO and chairman of Foxconn Technology Group.

It is hoped that the new factory will help form a new industrial cluster and provide close connections with corporations nearby; accelerating the industrial upgrading of Guangzhou.

Within two weeks of Foxconn's move, BeiGene, the first innovative Chinese bio-medicine enterprise listed in the U.S., also found a foothold in Sino-Singapore Guangzhou Knowledge City. It signed an agreement to establish a bio-medicine production base and produce oncology drugs that are "Made in Guangzhou." The company said the project will begin construction this year and it will invest up to 2.2 billion yuan.

This latest development has strengthened Lion TCR's CEO's confidence in his decision to invest in Guangzhou. He is also signing cooperation agreements with hospitals in Guangzhou to expand research and the manufacture of its T cell therapy.

"Guangzhou is an entry point for us to enter the Chinese market. We are optimistic about this investment and our future in the city," Li said.

Ma Xiaocheng, Wang Pan, Ye Qian are writers for Xinhua News Agency.

Home-grown cars gain popularity in China's domestic market and overseas

By YE QIAN, WANG PAN

In Guangzhou, Southern China, many younger motorists don't crave the latest Tesla or supercar. Instead, they're lining up to buy a home-grown SUV. The waiting period for the GAC Motor GS8 SUV can be up to three months.

Similar to the Toyota Highlander, produced by its sister joint venture company GAC Toyota, the GAC Motor-branded urban SUV has a 7-seat, 3-row layout with a body length of 4.8 meters.

Hai Han, a 33-year-old university administrator in Guangzhou, paid RMB 5,000 deposit for his white GS8 last week. Sales staff told him that he would not be able to pick up his new car until July this year.

Since its launch six months ago, the GS8 has taken the Chinese market by storm. Sales in March exceeded 10,000; a barrier which was once considered impossible for domestic automobile brands. Priced from RMB 160,000 up to RMB 250,000, the high-end model has also broken the previous price wall of RMB 100,000 for a domestic car. "Many people believed it was a dead end when they first heard the price," said a manager from a GAC 4S salesroom. However, consumers have a different opinion.

DOMESTIC AUTO BRANDS CONTRIBUTE TO GAC GROUP'S BOTTOM LINE

Guangzhou-based GAC Motor is a subsidiary of GAC Group which also runs a joint venture with Toyota Motor Company, producing cars for Toyota, Honda, Fiat Chrysler and Mitsubishi. Its car range includes the smaller GS4 SUV, which sells about 30,000 models each month, and the medium and larger size GA8 sedan, which is said to be used by the Mayor of Guangzhou.

Latest official production and sales data from GAC Motor shows that sales volume in the first quarter reached 121,665,



up 67 percent from last year. Sales of the GS4 reached 89,169, an increase of 35.5 percent.

Cui Dongshu, secretary-general of the China Passenger Car Association, said GAC Motor has put immense effort into developing SUVs over the past two years. Breaking out of the "low price and low quality" bracket, SUVs have played a key role in raising the profile – and profit – of domestic cars.

This is having a positive impact on the balance sheet of the holding company. The Group posted increased operating revenue of RMB 49.417 billion in 2016, a year-on-year increase of 67.98 percent. Net profit attributed to shareholders

reached RMB 6.288 billion, an increase of 48.57 percent.

The homegrown GAC Motor brand accounted for 48 percent of the group's total of RMB 6.288 billion profit. Domestic and JV companies now contribute equally to the group's profit.

Director of China's Automobile Industry Advisory Committee An Qingheng said the increasing profitability of GAC Motor is due to its high-end products and management structure. GAC Motor has effectively absorbed the lean management style of its Japanese partners; increasing the efficiency of the whole team. It also cites its "GAC-style production mode" as a success factor. GAC combines Chinese, European, US and Japanese research and development with its global supply chain to achieve growth.

INTERNATIONAL FOCUS

Under the auspices of its "Brand First, Sales Later" international strategy, GAC Motor is going global. GAC Motor already sells its high-end cars in Kuwait, Dubai and Bahrain and is recognized by customers as the leading Chinese automotive brand.

Nigeria was the first country in Africa to import GAC Motor cars and currently has two dealerships. In 2016, GAC Motor exported more cars to Nigeria than any other Chinese automobile brand. Last year, GAC Motor established an SKD factory and became the first Chinese automotive brand to manufacture locally in the country.

GAC Group plans to expand further – to the U.S., Europe, and South Korea, as well as developing markets in Asia and South America. GAC North America Research and Development Center is under construction and will open this year. GAC Motor brands are expected to enter the North American market no later than 2019.

Ye Qian, Wang Pan are writers for Xinhua News Agency.

IN DEPTH

VOTE

Continued from Page One
and opposition politicians say the vote was so compromised it will be impossible to ever be sure of the result. Opposition parties claim that as many as 2.5 million ballots could be suspect. It is impossible to know on which side the disputed ballots were cast.

The 11-judge YSK board—eight members were appointed in September, including three replacements for purged judges—declared the vote valid, rejecting, in a 10-1 decision, opposition demands to annul it. Mr. Erdogan said the ruling resolved the matter and called for the opposition to respect the will of the people. The referendum, he has said, was highly democratic. Final voting results are expected by the end of this week.

The YSK hasn't commented on its deliberations that day. YSK representatives didn't respond to questions from The Wall Street Journal about complaints of irregularities or allegations that its decision violates Turkish law.

Presidential power

The vote altered Turkey's democracy. The changes, many of which take effect after the next elections, scheduled for 2019, will reorient power to the office of the president. They could allow Mr. Erdogan, who has run the country for 14 years, to stay in power for another 12.

Diplomats from several European nations say they are now rethinking their relations with Turkey, one of the European Union's most significant economic partners and its security ally in the fight against Islamic State.

"We knew something was wrong from the start," says Metin Feyzioğlu, president of the Union of Turkish Bar Associations, who ran a call center in Ankara for election legal advice. "If you ask whether it was an organized scheme to affect the referendum, I would say I don't know. But the result is so clear."

That the vote went ahead at all is a testament to how much Turkey has changed in the past year of Mr. Erdogan's tenure. After he was almost toppled in a failed coup last July, the president has been ruling with extraordinary powers under the continuing state of emergency.

His Justice and Development Party, or AKP, drafted and parliament passed the constitutional amendment package, setting the stage for April's referendum. State authorities had jailed dozens of opposition lawmakers and purged or detained one-third of Turkey's judicial officials. Mr. Erdogan's supporters dominated airwaves during the campaign and denied opposition figures permits for rallies.

Many in Turkey's legal community have questioned how a fair election could be held during the state of emergency. Since last summer, some 3,000 judges and more than 100,000 other civil ser-



OSMAN ORSAL/REUTERS

A woman in Izmir cast her ballot in Turkey's April 16 referendum on expanding presidential powers.

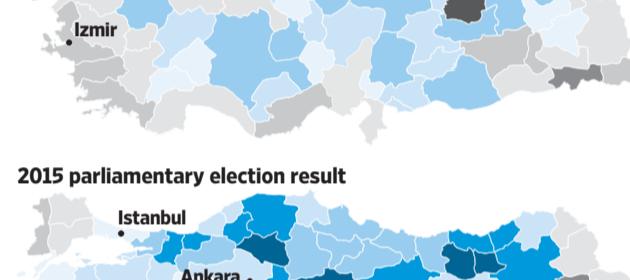
Turkey's Polarizing Referendum

Voters in many provinces that backed two major Turkish parties in a November 2015 parliamentary election were less enthusiastic about April's constitutional referendum, despite the support of the same parties, indicating the polarizing nature of the recent vote.

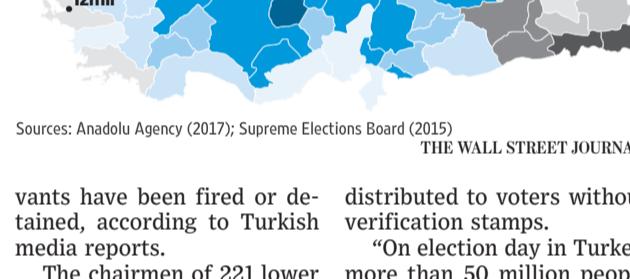
Compare the percentage of votes cast for the constitutional changes this month to the percentage cast in the November 2015 election for the two parties that supported the changes.



2017 constitutional referendum result



2015 parliamentary election result



Sources: Anadolu Agency (2017); Supreme Elections Board (2015)

THE WALL STREET JOURNAL.

vants have been fired or detained, according to Turkish media reports.

The chairmen of 221 lower electoral committees have been replaced, and more than 500 electoral board staff members were detained or arrested after the failed coup, according to European election monitors, who say the April referendum failed to meet international standards.

'We knew something was wrong from the start,' says a lawyer who provided advice.

Eric Meyerson, an assistant professor at the Stockholm School of Economics who studies Turkish elections and voting patterns, says he has never seen irregularities of the magnitude reported on April 16. There is no public information about how many ballots were printed for the referendum or how many were

distributed to voters without verification stamps.

"On election day in Turkey, more than 50 million people go out to vote," he says. "Stuff happens. But there seems to be a difference in magnitude this time around."

On the morning of the referendum, Servet Akman roused himself at 4 a.m. As chairman of the country's main opposition Republican People's Party, or CHP, in the Altindag district of the capital city of Ankara, he had been responsible for vote monitoring in three prior elections. On April 16, he led a team of 200 ballot-box observers. Each had two days of training.

His workers spread out after 6 a.m. to the schools to which they were assigned. The police refused entrance to several of the teams, he says. At the same time, AKP monitors walked in without any hassle, he says. An officer at the local police station later told the Journal that he wasn't aware of any such obstruction.

If poll observers weren't at their stations by 7 a.m., the head of the polling station

could replace them with other people. Mr. Akman says he had to intervene with the local election official to ensure the CHP's teams could work.

In Reyhanli, a town on the border with Syria in Turkey's far southeastern province of Hatay, police obstructed CHP voting observers at eight polling stations, according to Hulal Yasar, a local real-estate developer and party member. In some cases, police removed observers after they had already entered schools, Mr. Yasar says. The officers either gave no explanation or said they were just following orders, he says. An officer at the Reyhanli district police department told the Journal that he wasn't aware of any obstruction.

Turkish voters received paper ballots that said "yes" on one side and "no" on the other. They voted by stamping "choice" on one side or the other, then sealing the ballot into an envelope and placing it in a ballot box. Both the ballots and the envelopes are supposed to be prestamped by election officials with verification seals, a measure to prevent ballot-box stuffing.

The YSK's first decision of the day, Ruling No. 559, stated that ballots marked with the improper "yes" stamp would be accepted, as would ballots where the verification stamp was improperly placed.

These problems led to the YSK's second decision of the day, Ruling No. 560, which stated that if a voter's ballot was missing the required verification stamp, it would be rejected.

Back in the Altindag district of Ankara, one polling station monitored by a member of Mr. Akman's team reported that 185 ballots of 364 cast were on ballots lacking verification stamps.

By lunchtime, Mr. Feyzioğlu's election-advice call center in Ankara had logged nearly 1,000 phone calls as his legal teams fielded reports of ballot irregularities. Ballots being handed out across the country weren't stamped at all with verification seals by local election-agency representatives.

"This was happening all over the country," says a call-center coordinator who logged hundreds of complaints from urban centers including Istanbul, Ankara and Izmir. "It's not rocket science...to stamp the ballots. We had a very hard time understanding what the deal was."

In Isparta, in southwestern Turkey, a poll observer from the opposition People's Democratic Party, or HDP, says 300 voters cast ballots in envelopes without verification stamps before the problem was discovered. His ballot-box committee reported the problem to the district election agency.

Perplexing answer

The judges arrived at noon, he recalls, with a perplexing answer. "They told us that 45 minutes ago, a decision was made by YSK to accept unstamped ballots."

Around 3 p.m., Mr. Feyzioğlu says, the phone calls to his call centers stopped abruptly, which he attributes to the YSK decision to accept unstamped ballots.

Many vote monitors only became aware of the decision shortly after polls closed for the day, when they started tallying votes from the nation's 175,000 ballot boxes.

Around 5:30 p.m., a brief announcement appeared on the YSK website. It said the YSK was aware of "heavy volumes" of reports about irregularities and declared the suspect ballots would be counted. It gave no further details about its decision.

The AKP representative to the YSK board, Recep Ozel, told the Journal he petitioned the YSK to count the irregular ballots after consulting with AKP headquarters. "We couldn't ignore the voters' will due to the ballot-box committees' failures," he said. Mr. Erdogan wasn't involved in the decision, and the election was fair despite minor issues, he said. Election officials may have neglected to stamp bal-

lots and envelopes because they were delivered the morning of the vote, he said, instead of 48 hours before, as in past elections.

European election observers said in a report that the ruling "significantly changed the ballot validity criteria, undermining an important safeguard and contradicting the law."

Legal rationale

Mr. Feyzioğlu says the YSK ruling gave district election officials the legal rationale to prevent observers from recording instances of un-stamped ballots, and to erase evidence of possible irregularities by putting stamps on ballots retroactively. "The ruling meant that there were no irregularities, and so there was no need to file reports," he says.

The formal decision permitting the unstamped ballots showed up on the YSK's website three days after the voting. An assistant delivered a copy to Mr. Feyzioğlu during an interview with the Journal. The decision said the YSK didn't want to disenfranchise voters.

"It's bullshit," Mr. Feyzioğlu says.

When Turkey's polls closed, some of the first ballots to be counted were from 2.9 million registered overseas voters. Opposition poll monitors reported irregularities in these tallies.

One poll monitor from the HDP said some ballot envelopes were unstamped. In addition, she said, state officials in charge of her ballot boxes discarded slightly damaged ballots for "no," while counting similarly damaged "yes" votes.

At 6:01 p.m. state television began broadcasting results from the state-run Anadolu news agency, whose numbers were updating faster than the YSK's internal portal accessible to political parties and government officials. Anadolu's chairman later said the agency got its data directly from ballot boxes after they were counted.

By 7:45 p.m., state broadcaster TRT had called the vote for "yes."

The poll monitor in Izmir says he was still counting votes at that time. At 9:30 p.m., he joined about 50 others lined up at a local election office to submit results. Anadolu already was reporting that 95% of Izmir's votes had been tallied even though he and many others had not submitted their totals yet, he says. Izmir overall voted "no."

At 9:45 p.m., Turkey's Prime Minister Binali Yıldırım declared victory. Mr. Erdogan followed suit at 10:15, telling a supportive crowd in Istanbul that "yes" had won by 1.4 million votes. At the time, results published by Anadolu showed the "yes" side ahead by 1.1 million.

More than an hour later, the YSK declared the "yes" side won, but it didn't provide numbers.

"This nation has realized the most democratic election, the likes of which has not been seen in any Western country," Mr. Erdogan said the next day.

Brooklyn after attending the class. "It helps you clear your head."

"We always joke and say, 'Please don't speak,' because when he speaks he's so relaxing," Ms. Smith added.

Mr. von Bujdoss said he has met a handful of Buddhists who work in the jails. About 1% of adults in New York state are Buddhist, according to Pew Research Center data.

Born in Albuquerque, N.M., Mr. von Bujdoss lives in Brooklyn's Bay Ridge neighborhood with his wife and three children. He attended Antioch College in Ohio, during which he went to visit India. He subsequently spent about five years training in monasteries there.

He largely did his clinical training in places such as locked psychiatric wards and medical intensive-care units, that he said were in near-constant crisis—not unlike jail. He also spent years working for a home-hospice provider.

At Rikers, his job includes visiting officers who are seriously ill or have mental-health issues and helping officers cope with loss.

"My theological point of connection is crisis," he said. "Trying to bring peace to a place of pain and suffering and trauma—that's what I connect to."

LAMA

Continued from Page One
is at best a difficult workplace. At its worst, it's a violent environment critics say should be shut down. Correction officials have said they have taken measures to fix a litany of problems, including the treatment of inmates.

Mr. von Bujdoss said he considers Rikers Island a "charnel ground," a term for things thought to be scary or evoke revulsion. These are powerful places for spiritual practice, he said, because one must cope with how to respond to spiritual difficulties.

The Department of Correction employs 27 chaplains—eight Protestants, eight Catholics, seven Muslims and four Jews—all of whom serve inmates. Mr. von Bujdoss, by contrast, focuses on corrections staff, who are known locally by the nickname "New York's Boldest."

During the recent meditation class, in a cinder-block room at the jail complex, Mr. von Bujdoss asked each officer to name the easiest and hardest part of his or her day.

Easy: "When I'm not here" and "going home to my fam-

ily." Hard: "Not knowing how the day is going to go" and "personalities."

The Buddhist lama led the class in several meditation exercises, including one in which officers imagined leaving the island. "Step into a private jet," he said. "Look at the upholstery and imagine what it smells like."

The sounds of radio beeps and pounding came from the hallway. Someone could be heard yelling for restraints.

They imagined the island fading into the distance. When their private jets arrived at their destinations, they imagined loading into their dream cars. Eventually, Mr. von Bujdoss led his meditators to a secret box.

The exercise is meant to develop resiliency, he said later, and to highlight aspects of people's lives that get lost when they are working inside jail.

The opening of the box, the chaplain said, allows for some deeper image to come up that is relevant in the moment.

Afterward, the lama polled the officers about their journeys. "Who had leather upholstery?" he asked.

A female officer tentatively raised her hand. "What color?" he asked. "Pink," she said. She had flown to Tahiti.

"How'd it feel? Luxurious?" he asked.

"Oh, yeah," she replied.

A male officer told the chaplain he had flown home to Saint Lucia, a Caribbean island. He had imagined a small, simple plane, with blue seats.

"What was in the box?" the chaplain asked.

"I don't know," the officer said sheepishly. "I fell asleep."

The meditation class was officially over, and the officers all went back to jail.

Mr. von Bujdoss began volunteering and conducting meditation classes at Rikers Island in 2013, when the Brooklyn dharma center of which he was executive director was looking for a social project. "The staff were so interested from watch-

ing the inmates do it," said Warden Helena Smith, of the inmate classes he led.

When the department posted a full-time chaplain job, Mr. von Bujdoss applied.

He began in September, and well Warden Smith, has been well received by staff.

"It's a very stressful job," said a 33-year-old officer from

Brooklyn after attending the class. "It helps you clear your head."

"We always joke and say, 'Please don't speak,' because when he speaks he's so relaxing," Ms. Smith added.

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BY BYRON SMITH FOR THE WALL STREET JOURNAL

Photo: BYRON SMITH FOR THE WALL STREET J

LIFE & ARTS

FASHION

The Fashion Secret of Stylish Men

There's stretchy material in their suits and shirts; retailers now admit they're using stretch

BY RAY A. SMITH

CLOTHING RETAILERS used to whisper about the stretch in their men's clothing, out of fear of scaring away men.

This spring, the whisper is becoming a shout.

Men finally seem OK with fabrics with elasticity—a staple in women's fashion for decades. Technology has made stretchy material less boingy and thus less noticeable, which appeals to men who previously saw even 2% spandex in a suit and thought cycling shorts.

Tighter-fitting styles for suits and casual wear also make a little give appealing, or even feel like a necessity. Men say they want some leeway around the shoulders, elbows, thighs and knees.

"We've embraced stretch and we're proud of it," says online retailer Bonobos' chief creative officer Dwight Fenton. "We let everyone know that it's our thing."

Bonobos, which is in talks to be acquired by Wal-Mart Stores Inc., last month introduced a line of pants: Stretch Weekday Warriors. The company also didn't shy away from the word in promoting them with the tagline, "Stretch your weekday further with extra comfort." Mr. Fenton says, "Not long ago we would have told mills not to show us stretch fabrics."

Dustin Godsey, chief marketing

officer for the Milwaukee Bucks, had never purchased pants with stretch until a couple of months ago, when they arrived as part of a clothing subscription service. Had it not been for the service, the 38-year-old wouldn't have bought pants with stretch, he says. He has long thought clothes with stretch "almost seem not appropriate for work or business attire," he said. "I don't want to wear sweatpants to work."

But he liked the way the stretch made the new pants feel and they were comfortable. "It's the same look, [as jeans and dress pants] but it feels like your sweatpants." Earlier this week, he tweeted: "I resisted for a long time, but let me tell you folks...getting pants with just a little bit of stretch in them is life altering." Regarding the tweet, he said, "I'm a fairly recent convert and I just felt like people should know."

J.Crew in February posted a video to reassure men that a little stretch is OK. In the 30-second clip, models wear stretch jeans while they pop wheelies on a motorbike, play tennis in a suit made with stretch, and slide on a wet plastic Slip 'N Slide style tarp in a pair of stretch chinos. J.Crew posted it on its website and YouTube channel, where it has gotten 617,277 views since February.

In a new J.Crew campaign on its website, men can click on a tab

that says "Shop all stretch." There was no such thing two years ago, when J.Crew first started adding stretch to men's clothes. That's a change from the past. Often "when a guy thinks stretch, he thinks running leggings" or something clingy, says Frank Muytjens, head of men's design at J.Crew, who left the company on Tuesday amid a raft of changes.

"We introduced stretch in a small



ILLUSTRATION BY C. J. BURTON; PHOTOS FROM TOP: DOCKERS; J.CREW



Dockers Smart 360 Flex khakis, below left, use a four-way stretch fabric. J.Crew touts stretch. It added stretch to its 9" shorts, far left.

have reduced the much-disliked shiny effect and made blending stretch with natural fabrics more seamless.

The brand Theory was considered groundbreaking when it launched in 1997, for using Lycra in its office-friendly womenswear. Theory debuted menswear two years later and added stretch there too, but never really talked about it. When the company promoted its new Neoteric pant, made with 5% elastane, a type of stretch, and 95% polyamide, a synthetic fiber, it used technological-breakthrough terms. The company has since launched two new styles of the pants and for fall, will introduce a technical tailored wool suit with 7% elastane.

Theory's levels of stretch are higher than some other companies. Bonobos' Stretch Weekday Warrior pants include 2% elastane and Ralph Lauren's knit oxfords in stretch cotton, launched in 2015, contain 2% elastane. Dockers' new Smart 360 Flex khaki pants use 4% stretch, up from 2% in prior versions. The new line uses four-way stretch, meaning the stretch fabric extends sideways and up and down. The four-way fabric extends to the waistband too, so it expands and snaps back into place.

way, in a garment-dyed short, just to test, to see how our guy would react," Mr. Muytjens says. Now there is a bigger variety. Over the past year the company has launched a version of its top-selling cotton 9" shorts with stretch, stretch dock shorts, stretch chinos, and a line of its Ludlow and Crosby suits in a new stretch fabric.

Dockers plans to highlight

stretch "very loud and proud for him" with in-store packaging and at cash registers when it launches this fall a new line of khakis with twice as much stretch as its other khakis, says Robert Dellaporte, a Dockers spokesman.

The newer clothes don't look stretchy—unlike those seen on disco dance floors in the 1970s. Advances in weaving technology



Julia De Marco, a 25-year-old pet-store manager and yoga teacher, says that the "easy gourmet meals" case has become part of her weekly routine. She likes the quick solution for her and her fiancé. Unlike takeout, "you can see the ingredients. You know where it's coming from," she says. She also likes that she can go to one location in the store, grab exactly what she needs and be home in 10 minutes without spending any time roaming through aisles.

Grocery stores have pulled out many other tricks, but without much success.

Some opened drive-through windows. Some launched full-service restaurants, says supermarket analyst David Livingston in Waukesha, Wis. Until five years ago, nine of 11 California-based Bristol Farms Inc. stores had sit-down restaurants with waiters and waitresses. Today, only two stores have them. "There's such a variety of grab-and-go food that it was redundant," says Bristol Farms chief executive Kevin Davis.

Supermarkets are constantly trying to adapt to the changing way people shop. People's food standards—from wanting to know which farm the lettuce is from, to how it is grown—are higher than ever, and their time is increasingly limited. Grocery stores are also feeling pressure from online sales, subscription meal-kit services and restaurants. In a study conducted by Harris Poll for Nielsen last December, 25% of 2,015 adults surveyed said they purchased a meal kit in the past year.

"If someone goes to Chipotle for lunch, that's still a customer we didn't get," Mr. Davis says.

But grocers' big advantage is that most people still like to shop in person, woed by smells and textures, squeezing avocados and turning over apples before bagging.



Price Chopper/Market 32 stores organize meat, sauces and sides in one display case.

BY ANNE MARIE CHAKER

GETTING US TO COOK at home more may come down to chopping vegetables.

The task is just-time-consuming and just-messy enough that it sends people who are on the fence to takeout at the witching hour of 5 p.m.

Supermarkets, in their continuing efforts to win back shoppers who increasingly turn to takeout, restaurants and meal kits, are trying more services that sell chopped vegetables and other short-cuts. They appeal to people's preference for choosing their own food in person.

Hy-Vee Inc., a chain of 244 Midwestern supermarkets, has begun a meal-preparation program that runs similarly to a book club. A group of five to 12 customers schedule a time to gather in a separate room in the store that may have large working tables, a stove and a dishwasher. Each group member selects one recipe. The group prepares and divides up the meals for everyone to take home.

Store staff does all the chopping and cleanup. Customers can sip wine while assembling ingredients. Cost is about \$10 a person plus the grocery bill, divided evenly among participants.

Brianna Lane, a 36-year old stay-at-home mom in Davenport, Iowa, and 11 of her friends meet every six weeks in the "club room" of their Bettendorf, Iowa, Hy-Vee store. Last week the group prepared recipes including sweet-and-sour meatballs and Monterey chicken. They split portions into freezer bags to take home. Ms. Lane says she stacks hers in the freezer and uses them over the next several weeks to feed her family of nine.

"The convenience of knowing exactly what you're going to make at 5 o'clock is awesome," she says.

Schenectady, N.Y.-based PriceChopper/Market 32 stores, a regional chain of 137 stores in the northeast, has launched a choose-your-own-adventure case in the meat department. Customers start with a sauce, such as lemon-garlic or Marsala mushroom, and select their meat, which is prepared and cut. Then, they are led to pre-

pared and packaged vegetable mixes, such as Brussels sprouts, onion and apple, or squash and onions for \$2.99. Then, the starch: Packages of lime-cilantro rice or mashed sweet potatoes for \$4.49. Below are recipe cards with preparation suggestions. Customers can select a seasoning mix. The recipes take 15 minutes to prepare, says Mona Golub, a vice president for the supermarket chain, serve four and cost \$20 to \$25.

Julia De Marco, a 25-year-old pet-store manager and yoga teacher, says that the "easy gourmet meals" case has become part of her weekly routine. She likes the quick solution for her and her fiancé. Unlike takeout, "you can see the ingredients. You know where it's coming from," she says. She also likes that she can go to one location in the store, grab exactly what she needs and be home in 10 minutes without spending any time roaming through aisles.

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OPINION

REVIEW & OUTLOOK

China's Stealth Carrier Program

China sent another signal on Wednesday that it intends to project military power across the region with the launch of its second aircraft carrier. When it completes sea trials in several years, the new ship will be China's first operational carrier. The existing Liaoning, built using a Soviet-era hull and launched in 2012, is used only for training.

Yet despite the prestige of joining the exclusive aircraft-carrier club, Beijing remains virtually silent about the program. This lack of transparency suggests the People's Liberation Army hopes potential adversaries continue to underestimate its future capabilities.

The flattop's construction was widely reported abroad, since it was obvious even to casual visitors to the port of Dalian. Yet until the People's Daily announced it last December, the ship's existence remained a state secret.

As always, the lack of information fed speculation. Many experts believe that China aims to build five more carriers over the next decade. That would allow it to have two at sea at any time while conducting maintenance and training on the others in port.

One theory is that China intends to use its carriers to show the flag and intimidate smaller countries in the region. At least for the foreseeable future, the ships would be vulnerable and

of little use in a conflict with technologically superior U.S. and Japanese forces.

The PLA has also shown that even the most powerful carriers have limitations. It developed a potent strategy of asymmetric naval warfare using relatively inexpensive weapons such as mines and antiship missiles. The idea behind this strategy of "area denial" is that the U.S. will be reluctant to send ships into Chinese coastal waters in the event of a conflict. The irony is that once China has its own carriers, such tactics could be turned against it by smaller adversaries such as Taiwan and Vietnam.

Despite their vulnerability and the immense cost to develop the technology, Beijing nevertheless presses ahead with carriers. A logical conclusion is that the PLA is looking decades ahead to when China's economy is projected to be the largest in the world and could support the military needed for superpower status.

Beijing's silence as the PLA deploys new weapons suggests a return to a traditional strategic culture of deception. Neighboring countries are expressing alarm that China seems to want to restore its premodern dominance over the region. Wednesday's carrier launch will reinforce their concern.

Beijing doesn't like to talk about its plans to project naval power.

Trump's New Housing Tax

U.S. Commerce Secretary Wilbur Ross announced Monday that the Trump administration will raise the cost of new single family homes in the U.S. as part of its promise to "make America great again."

Mr. Ross didn't put it quite that way. He said the Administration will impose a 20% tariff on softwood-lumber imports from Canada, which total about \$5 billion a year. But that's a lot of lumber and the tariff will add an additional \$1 billion in new costs for U.S. construction. Most of those costs will be added to the price of new American housing, not counting the higher costs that will come as U.S. producers raise their prices to match the competition and pad their bottom lines.

Mr. Trump bills himself as an outsider with fresh ideas. But U.S. politicians have been bowing to demands from American lumber interests for protection from Canadian competition since the 1980s. The industry initially accused Canada of subsidizing softwood-lumber exports in 1982. The Commerce Department ruled against it in 1983. But in 1986 Commerce reversed that decision and successfully pressured Canada to begin collecting an export tax on its lumber exports.

Canada dropped that tax in the early 1990s and American lumber interests again clamored for protection. Canada again gave in, despite the lack of findings by dispute-resolution panels of subsidies or injury. In 1996 the U.S. negotiated the Softwood Lumber Agreement that hit U.S. consumers with new tariffs on lumber imports above a duty-free quota.

Over the years, North American Free Trade Agreement (Nafta) dispute-resolution panels have repeatedly questioned U.S. findings of subsidies, injury and dumping over lumber and remanded the cases back to U.S. authorities. In 2004 the U.S. International Trade

Commission, using the Nafta dispute-panel's instructions, found that Canadian imports don't harm the U.S. industry. But more often the U.S. government simply ignores its obligations under Nafta in order to protect U.S. lumber interests.

As long as laws exist that invite antidumping and countervailing duty claims, U.S. domestic producers will try to erect barriers to foreign competition. Mr. Trump may also believe that he can use the lumber tariff to open Canada's agricultural markets, which despite Nafta are still gummed up with quotas and tariffs imposed by Ottawa. The trade politics of powdered milk is a particular mess that is hurting U.S. dairy farmers.

Yet while the cross-border haggling drags on, middle America is where the new lumber tariff will hit hardest. According to the National Association of Home Builders, 28% of U.S. softwood-lumber purchases are Canadian imports and these are particularly important in the construction of single-family homes. Roughly 7% of the cost of an American home is the lumber and that cost is already up, on average, by some \$3,000 this year. The Journal reports that "builders say lumber costs are already at the highest in a decade." Labor shortages in construction, thanks in part to restrictions on immigration, are also pushing up costs.

With his announcement last week on steel and this week's lumber action, Mr. Trump's trade policy is coming into focus. He'll use tariffs to restrict imports and appease domestic producers that have the best trade lawyers and lobbyists, while hoping consumers don't notice the higher prices. Mr. Trump made it to the White House with the support of middle-class voters still yearning for the American dream. Making home ownership more expensive is hardly the way to thank them.

A tariff on foreign lumber will raise the cost of U.S. homes.

Two More Repeal Targets

U.S. Congress is making good progress on rolling back Obama Administration regulations, but a case of political nerves is protecting two obvious targets for repeal that are still standing: a Labor Department exemption from the Employee Retirement Income Security Act (Erisa) for state-run retirement plans and the Education Department's borrower defense rule.

Such left-leaning states as California, Illinois, Maryland, New Jersey and Oregon have passed laws to set up state-administered retirement accounts for workers in the private economy who aren't covered by employer plans. Employers would be required to automatically enroll workers in the state plans and deduct payroll contributions—up to 10% of wages in California—though employees could opt out.

The putative goal is to reduce administrative fees through economies of scale. But workers can easily sign up for a low-cost Roth IRA over the internet and choose how much to contribute. Liberals don't trust workers to make their own financial decisions, so Democrats want to "nudge"—the behavioral economist's euphemism for compel—their way away from money while giving politicians control of their investments.

Many workers would unknowingly contribute a share of their wages to retirement plans they don't know exist and may not be able to exit. They also wouldn't be protected by Erisa since former Labor Secretary Tom Perez last year exempted state plans with automatic enrollment. Thus, an employer in Wisconsin who enrolls workers in a 401(k) would be deemed a fiduciary. But in California an employer's fiduciary obligations would be waived if he enrolls his employees in the state plan. Employ-

ers would have a new incentive to drop workers on the public plans that would be guaranteed by taxpayers.

Republicans hedge on rescinding a pair of damaging regulations.

Meanwhile, Republicans should also move to rescind a midnight rule by the Obama Adminstration that lets borrowers who claim they've been duped by their colleges to discharge their student loans. The Education Department estimated the rule would cost taxpayers between \$9.5 billion and \$21.2 billion over the next decade, though Obama officials repeatedly underestimated the cost of loan forgiveness.

Colleges could be billed for discharges without due process. The standard of proof would be lower than that for demonstrating fraud in most states, and department officials would defend and adjudicate students' claims. This would inflate the federal bureaucracy as much as the taxpayer tab.

The rule also sets various "triggers" (e.g., lawsuits) that would allow department officials to demand collateral from colleges. This is how the Obama Adminstration put ITT Tech out of business. Arbitration agreements and class-action waivers would be prohibited. Nonprofit and public colleges could be targeted by plaintiff attorneys as much as for-profits.

Republicans would do taxpayers and the Trump Adminstration a favor by unwinding these rules before they do serious damage.

America's Running Out Of 'Strategic Patience'



POLITICS & IDEAS
By William A. Galston

U.S. Secretary of State Rex Tillerson declared in Seoul last month that the U.S. policy of "strategic patience" toward North Korea had ended. Four weeks later, during an extensive diplomatic mission to East Asia and Australia, Vice President Mike Pence repeated this statement.

President Trump has underscored the urgency of the North Korean threat. This united front, which has not been characteristic of the Trump administration's foreign dealings thus far, reportedly reflects an intensive and well-organized policy-review process. It should be taken seriously at home and abroad.

The Obama administration's embrace of strategic patience rested on assumptions that subsequent developments undermined. The U.S. couldn't afford to wait for North Korea to decide to denuclearize, as President Obama had hoped, because its regime had no intention of doing so. No wonder Mr. Obama told President-elect Trump that North Korea was the most urgent and difficult foreign-policy problem he would face when he took the oath of office.

Even though the Trump administration has rejected the status quo and committed to a change of course, its deliberations will continue to be bounded by the constraints that bedeviled its predecessors.

First, there are no good military options. A pre-emptive strike against North Korea's nuclear facilities would certainly trigger a massive attack against Seoul, only 35 miles from the demilitarized zone. The magnitude of the projected death and destruction is sobering. And Pyongyang could decide to use whatever nuclear weapons survive a U.S. first strike. This would devastate not only South Korea's population, but also the more than 28,000 U.S. troops stationed there.

Second, the U.S. has a longstanding network of security obligations throughout the region, including formal treaties with both Japan and South Korea. In the event of an attack on these allies, the U.S. is committed to their defense. Failure to do so would destroy America's credibility as a security guarantor.

Third, China has interests that diverge from those of the U.S. Still, there are signs of mounting Chinese frustration with North Korea's unpredictable and belligerent adventurism. China, too, would welcome a denuclearized North Korea. At this point, Beijing's relations with Seoul are warmer than with Pyongyang.

Nevertheless, China's longstanding,

overriding concern is that the collapse of the Kim family's hereditary tyranny could send millions of North Korean refugees surging across its border and lead to the reunification of the Korean Peninsula under a pro-Western government. The prospect of South Korean and U.S. troops on its border led Mao Zedong to send 700,000 Chinese troops across the Yalu River during the Korean War. It is far from clear that Beijing's fundamental calculus has changed in the ensuing decades.

Within these constraints, the essential first step is to reach a clear understanding with Beijing. The Trump administration should make clear that the U.S. regards North Korea's nuclear threat to its neighbors as intolerable—

Trump confronts the North Korea problem, his most urgent foreign challenge.

and that the North Koreans cannot be permitted to develop a nuclear-armed missile capable of reaching any American target. Given the history of North Korea's nuclear program over the past three decades, the only acceptable outcome is permanent and complete denuclearization. Whatever may have been the case in the past, China's President Xi Jinping must know that these concerns now take priority over every other aspect of the bilateral relationship.

Two policies would follow from this new understanding with Beijing. The U.S. would continue to ramp up the anti-missile systems being deployed in South Korea and perhaps elsewhere in the region, and China would accept them as consistent with its own security interests.

The U.S. would also put in place a policy of "secondary sanctions" against North Korea, as recommended by former Deputy CIA Director and Treasury Undersecretary David S. Cohen in the Washington Post this weekend. This would force Beijing to choose between continuing its financial relationship with North Korea and maintaining access to the U.S. financial system.

The U.S. would also accelerate its development of cyberwarfare tools to disrupt the functioning of North Korean missiles and destroy them early in their launch trajectory.

The Korean War never formally concluded. If North Korea permanently and verifiably ends its nuclear program, the U.S. should agree to sign a peace treaty recognizing the indefinite division of the Korean Peninsula until the two Koreas peacefully agree on terms to reunify.

LETTERS TO THE EDITOR

Lessons for the Next Supreme Court Nominee

Fred Barnes asserts that abortion will be the central issue in the confirmation battle over the next U.S. Supreme Court nominee ("Gorsuch Lessons for Trump's Next Nominee," April 20). This is myopic, one-sided, sure to be espoused by Democrats and just wrong.

A litmus test on any particular issue cannot, by definition, preserve the Constitution's numerous, liberty-protecting dimensions. The proper focus of any Supreme Court nomination must instead be on the nominee's overall judicial philosophy. On that point, President Trump has made himself clear. Only a judge who follows the original meaning of the Constitution will do.

Democrats, of course, will inevitably oppose the next Trump nominee and will flog the A-word in an attempt to rally their base by whipping up an abortion frenzy. But just think of all the other pivotal constitutional issues that

appear more regularly on the Court's docket and matter greatly to everyday lives. Protecting the First Amendment's guarantees of freedom of speech and religion, the Second Amendment's right to keep and bear arms and the Constitution's separation of powers—among the three branches of the federal government and between the federal government and the states—are essential to securing individual liberty. Notably, these are among the issues that Justice Anthony Kennedy championed for 30 years.

Americans tend to agree with the president on judicial appointments, so it is no surprise that Democrats would want to change the terms of the debate by using scare tactics on the issue of abortion. Republicans—or anyone who truly cares about the U.S. Constitution or individual liberty, for that matter—should not take the bait.

DAVID B. RIVKIN JR.

Washington

Ungreen Consequences of Some Green Projects

I urge prospective investors in wind farms and transmission lines to consider the long-term threats such projects pose to the environment ("Investors Back Power Lines," April 7). President Obama allowed his Bureau of Land Management managers to steamroll opponents of the SunZia project in New Mexico and Arizona, which included conservative ranchers, the Sierra Club and Mr. Obama's own EPA—not your everyday bedfellows.

What were the objections? SunZia's wind farm will be a massive horizon-stretching monster, destructive of pristine high-desert landscapes filled with unique fauna and flora. A planned wind farm in southern New Mexico, close to Carlsbad Caverns, will endanger thousands of bats each year with its turbine blades. The transmission-line route cuts through environmentally sensitive wetlands along the Rio Grande and Arizona's Salt River on its way to link with existing power lines to California. These wetlands are home to a multitude of wildlife, including migratory birds and raptor populations. Power lines can be lethal obstacles to migratory birds. Larger raptors are drawn to them as prey-overlook sites, and thousands of protected birds are electrocuted every year.

Some temporary jobs will be cre-

ated in SunZia's construction but only a handful of permanent jobs. The major beneficiaries will be Southern California electrical utilities. Los Angeles has drunk dry many lakes in neighboring states and is now primed to destroy environments and wildlife in New Mexico, Arizona, Wyoming and Colorado to feed its energy needs and "green" power imperative.

DAVID H. HILEY

Albuquerque, N.M.

The Chinese government has used expensive power-generation projects as a means of securing jobs for its people, creating overcapacity that will burden its economy for years into the future. Let's hope the Trump administration supports infrastructure projects that are actually needed, such as rebuilding the nation's many failing bridges, instead of assuring attractive investments for private citizens.

KIMBERLY JONES

Wendell, N.C.

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OPINION

Growth Can Solve America's Debt Dilemma

By Stephen Moore

The U.S. Congressional Budget Office's latest report on the nation's fiscal future is full of doom and gloom. The national debt will double in the next 30 years to 150% of gross domestic product—which is Greece territory. Interest payments may become the largest budget line, eclipsing national defense. Federal spending is expected to soar over 20 years to 28% of GDP from 22%. Never outside of wartime has Washington's burden been so heavy on the economy.

Hitting 3% would mean an economy that's \$13 trillion larger in 30 years—causing fiscal woes to vanish.

But the report's most troubling forecast, by far, is for decades of sluggish economic growth. The CBO projects that America will limp along at an average 1.9% annual growth over the next 30 years. This is a sharp downgrade from historical performance. Between 1974 and 2001, average growth was 3.3%. An extra percentage point makes a world of difference. If weak growth persists,

there is almost no combination of plausible spending cuts and tax increases that will get Washington anywhere near a balanced budget.

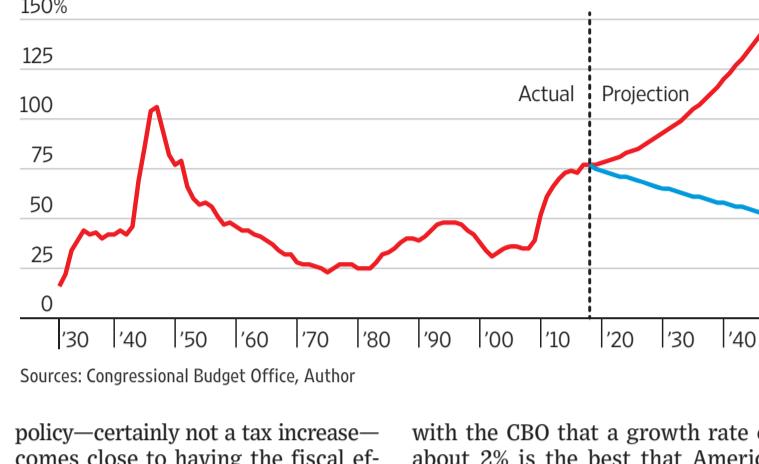
But consider what happens to the CBO's numbers assuming 3% annual growth. By 2040 the economy would expand not to \$29.9 trillion, but to \$38.3 trillion, according to an analysis by Research Affiliates, a California investment firm. That's an additional output of \$8.4 trillion—roughly the entire annual production today of every state west of the Mississippi River.

By 2047, the economy would grow to \$47.1 trillion, almost \$13 trillion more than the CBO's baseline estimate. That would spin off new tax revenue to Washington of about \$2.5 trillion each year. That money ought to be more than enough to pay all the bills and cover most of the unfunded costs of Social Security and Medicare. The old saying is right: The most powerful force in the universe is compound interest.

Growth of 3% would stop the debt-to-GDP ratio from skyrocketing. Instead it would start to fall almost immediately, eventually to about 50%, because the economy would be so much larger. Congress and the White House ought to understand that what matters most for heading off a fiscal crisis is making sure that the economy grows faster than the government. No other debt-reduction

The Power of an Expanding Economy

Federal debt held by the public as a share of GDP, 1930-2047, CBO projection (assuming 1.9% growth) and adjusted projection (3%)



Sources: Congressional Budget Office, Author

policy—certainly not a tax increase—comes close to having the fiscal effect that sustained prosperity does.

A good example is the late 1990s, the only time in recent history that Washington balanced its budget. Surpluses were the result of good policy: A 16-year economic surge allowed revenues to catch up to expenditures. A booming stock market, aided by a cut in the capital-gains tax, brought in unexpected revenue. Spending was restrained under President Clinton and a Republican Congress.

Many blue-chip economists agree

dation predicted last year that the House Republican tax reform alone would raise wages by 8%, GDP by 9% and capital investment by 28%. If this is even close to being right, pass the tax cut now and stop obsessing about whether it is paid for within the short-term budget window.

The demographic problem is a greater challenge, with the baby boomers retiring. But according to my calculations at least seven million Americans in their prime working years—18 to 65—would be on the job today if labor-force participation had not dropped since 2000. A strong economy, paired with welfare reforms, could draw millions back to work. And immigration is America's natural demographic safety valve. Letting in more legal immigrants—especially those with skills and special talents—may not happen under President Trump, but it can and should eventually.

This isn't a call for budget complacency. Congress should cap spending and flatten the payout formulas for entitlement programs. But there's simply no way to fix the long-term fiscal problems with 1.9% growth, no matter how sharp the budget knife. What America needs is real and sustained growth.

Mr. Moore is an economic consultant at Freedom Works and a senior economic analyst at CNN.

Rating America's Semi-Accidental President



BUSINESS WORLD

By Holman W. Jenkins, Jr.

In an interesting piece of analysis, two sociologists semi-independently find that photos of Donald Trump on election night show him displaying facial expressions typical of sadness, not joy.

Randall Collins, of the University of Pennsylvania, using standard, well-tested metrics of facial expression and emotion, speculates that Mr. Trump is sad because he realizes "his life is going to change, drastically" in ways that won't be fun.

Mr. Collins, in a blog posting, cites a colleague, Anne Nassauer of the John F. Kennedy Institute for North American Studies in Berlin, as the originator of this line of Trumpian inquiry. Ms. Nassauer tells me that while "we can only speculate as to why President-elect Trump showed facial expressions of sadness, it is surprising that he showed these expressions directly after his victory in the election."

Those in New York business circles

who know Mr. Trump best generally saw his presidential dabblings as a brand-building endeavor. This column certainly questioned repeatedly whether he really wanted to be president. He wasn't willing to spend enough of his own money to give him a chance in the popular vote. He found himself in the White House only due to a flukishly small margin of voters in three states that delivered him the Electoral College.

The self-flagellation of the media in the aftermath was mainly about preserving the utility of the media's beloved hindsight fallacy, in which unexpected outcomes are always the result of somebody failing to do their job. In fact, pollsters gave Mr. Trump a 15% chance of winning, which seems about right. Things with a 15% chance of happening happen roughly one time out of 6.67.

Harry Truman is often cited as an accidental president, and now is rated by historians as a successful president. People forget what a colossal disaster the Korean War was seen to be at the time.

The standards by which presidents are assumed to have been great are pe-

culiar. They are deemed great if the country survives disasters they didn't prevent, whereas citizens and voters at the time surely would have preferred a quiet life without disasters.

So, in this sense, Americans may feel they got their money's worth (\$400,000 per annum plus perks) from Mr. Trump if he avoids disasters.

If he does nothing, America will be better off. If he delivers tax reform, he'll be great.

The Trump stock rally has been interpreted by some as belief that this inexperienced president can work legislative miracles, but it's usually a mistake to attribute unrealism to investors. They likely just see an end to the Obama-Clinton program of higher taxes and increased regulation, a bonus Mr. Trump can continue to reap without any heroic effort on his part.

He was perhaps never likely to enact a health-care bill, in which case

some GOP House members will suffer and some voters will be made unhappy by losing their ObamaCare subsidies. But an ObamaCare meltdown is a survivable political event.

Less than 2% of Americans get health insurance from the ObamaCare exchanges. All the other handouts that 71% of Americans depend on—Medicare, expanded Medicaid, the giant tax deduction for employer-provided insurance—will remain intact. Plus the administration has ways to help restore a non-exchange market for individual health insurance, and the states can do the rest, including subsidizing certain consumers if they choose to do so.

If he can get corporate-tax reform done and otherwise stop harassing the economy the way Mr. Obama did, a judicious America might even decide it had a lucky election night. Historians too. An improvement in the growth rate by itself would allow Mr. Trump rightly to say he left America better positioned to confront its long-term fiscal challenges than Mr. Obama did. That's not nothing.

In the meantime, with some of his worst habits (according to critics) like his indisciplined tweeting, Mr. Trump

may actually be usefully demystifying the presidency. Right now, 72 hours of cable television a day are devoted to his doings. A pundit takes his livelihood in his hands by choosing to write about anything else. And no two Chicken Littles have ever enjoyed a run like that of Richard Painter and Norman Eisen, the lawyer-ethicists who constantly proclaim that the sky is falling due to this or that Trumpian conflict of interest.

This is all ridiculous. Americans are too much encouraged to see their presidents as action heroes somehow intervening daily to influence the lives of millions. The desire to inflate the stakes of politics (the Earth is in danger; every election is the most important in a century) is an unhealthy tic. The 100-day panic, as we're seeing this week, is a formula for presidential mischief.

A cartoon in the Eisenhower era had the president saying to his cabinet, "Gentlemen, what should we refrain from doing next?" So much of Mr. Trump's recent career involved pretending, not doing. The day may come when we have to admit this is one of President Trump's chief virtues.

The Shattered Arguments for a New Glass-Steagall

By William M. Isaac
And Richard M. Kovacevich

Gary Cohn may not be the first White House official you'd expect to favor reinstating Glass-Steagall, the Depression-era law that split commercial banks from investment banks. Yet Mr. Cohn, the former Goldman Sachs president who now leads the National Economic Council, urged just that in a private meeting with lawmakers, according to Bloomberg News.

This is deeply disappointing, particularly coming from an administration that seeks to stimulate growth by removing the government shackles that suppress competition and burden markets.

The 1999 repeal of Glass-Steagall was unfairly blamed in the aftermath of the 2008 financial crisis. Some people—apparently Mr. Cohn among them—mistakenly believe that investment banking is so risky that it should be once again kept separate from commercial banking. The truth is the opposite: Traditional investment banking entails very little risk. The danger is stand-alone investment banks that aren't diversified enough to survive a shock.

Traditional investment banks pri-

marily underwrote debt and equity for corporations; provide advice on mergers, acquisitions and divestitures; buy and sell securities for institutions; and help clients hedge their risks. These activities involve almost no risk on the investment banks' own books.

In contrast, commercial banks extend credit to people and businesses and retain a good deal of both the credit risk and the interest-rate risk. The repeal of Glass-Steagall allowed these banks to diversify their risks and revenues by providing fee-based investment services.

Banks are at risk of failure when they become too concentrated by geography, industry or product line. Risk needs to be diversified so that no one mistake can bring down the entire institution. Even firms like Citigroup and Bank of America that made a series of mistakes in the 2008 crisis survived because they were diversified. Investment banks that weren't properly diversified did not survive: Bear Stearns, Lehman Brothers, Merrill Lynch.

The major perpetrators of the 2008 financial crisis were 20 or so institutions that had originated, securitized and distributed exotic sub-prime mortgages with toxic features.

About 10 investment banks packaged mortgages made by savings-and-loan associations such as Countrywide, Washington Mutual and Indy Mac, and by state-chartered mortgage brokers—many of which committed outright fraud. These S&Ls were the remnants of an industry that had cost taxpayers some \$150 billion during the 1980s and early 1990s. Notably absent from this array of culprits were large commercial banks, with an exception or two.

Unfortunately, regulators failed to see or act on the growing problems until they had escalated into a full-scale financial crisis. The U.S. Securities and Exchange Commission failed to enforce adequate capital and liquidity requirements on investment banks, including Bear Stearns and Lehman Brothers, which had trillion-dollar balance sheets funded by volatile and expensive short-term wholesale funds.

Banks are at risk of failure when they become too concentrated by geography, industry or product line. Risk needs to be diversified so that no one mistake can bring down the entire institution. Even firms like Citigroup and Bank of America that made a series of mistakes in the 2008 crisis survived because they were diversified. Investment banks that weren't properly diversified did not survive: Bear Stearns, Lehman Brothers, Merrill Lynch.

The major perpetrators of the 2008 financial crisis were 20 or so institutions that had originated, securitized and distributed exotic sub-prime mortgages with toxic features.

As a consequence of the crisis, the offending investment banks and S&Ls were sold, liquidated or converted into regulated banking companies. The financial system has stabilized at historically high capital levels and the economy is slowly growing again.

Investment banking isn't risky. What's dangerous is creating stand-alone firms that can't diversify.

Today there are no major stand-alone investment banks engaged in high-risk trading for their own accounts. After much turmoil and hundreds of billions of dollars in losses, they are finally gone. Investment banking now either is part of the

regulated commercial-banking industry or is conducted in small boutique firms that are not highly leveraged. A separate hedge-fund industry exists for private investors interested in proprietary trading, private equity, exotic securitizations and other high-risk businesses.

This is a positive change for the safety and soundness of the financial system. Yet almost unbelievably, there are calls to restore Glass-Steagall, re-create stand-alone investment banks and allow them to operate once again outside the regulated banking system. The administration and Congress shouldn't even consider putting America's economy at risk that way again.

Mr. Isaac, former chairman of the Federal Deposit Insurance Corp., is a consultant to financial institutions. Mr. Kovacevich is a retired chairman and CEO of Wells Fargo & Co.

The 'Hundred Days' Humbug

By Charles Kesler

President Trump is criticized for things he has done and for things he has left undone. What is unreasonable is the additional arbitrary standard to which he, like all modern presidents, is held liable: what he has accomplished, and failed to, in his first hundred days in office.

Why is the figure of 100 days so important? As though Franklin D. Roosevelt doesn't have enough to answer for, here is another of his legacies.

FDR spoke of "the hundred days which had been devoted to the starting of the wheels of the New Deal" in his fireside chat of July 24, 1933—142 days after his March 4 inauguration. He was referring to "the historical special session of the Congress" he had convened, which opened March 9 and adjourned June 16. That is, the Hundred Days were legislative days, not executive days.

Today's Congress commonly leaves Washington three days a week. If you wanted to apply Roosevelt's implicit criterion of 100 congressional days, you'd be counting not to April 30, but

into July or August—or even September or later, since Congress is in recess the whole month of August.

It's true that in 1933 Roosevelt put the 73rd Congress through its paces. But the reason, or excuse, for the rush of legislation was an economic emergency, signaled by the steadily worsening bank panic. To get the closed banks open again was the aim of the first piece of legislation submitted, the Emergency Banking Act—introduced on March 9 at 12:37 p.m., and on its way to the president at 7:23 p.m.

Absent the bank panic, the Hundred Days would not have started with such a bang. Without a similar emergency, why should we expect a president's (or Congress's) first hundred days to have anything like the same urgency and focus?

Congress did enact leading elements of the New Deal during the Hundred Days. But within two years the U.S. Supreme Court had gutted the National Industrial Recovery Act. The administration never attempted to revive it. In 1936 the same fate befell the Agricultural Adjustment Act, though in less sweeping fashion.

There could hardly be a more arbitrary and unhistorical test of presidential quality. Mr. Trump may confidently assure his critics that, like the Constitution's framers, he believes good legislation requires deliberation, which takes time. Let the final version of his health-care bill be significantly better than the first, and he will prove his point to the country's satisfaction.

Mr. Kesler is editor of the Claremont Review of Books, from whose forthcoming Spring issue this article is adapted.

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LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

The Paparazzi-Proof Airline Terminal

The new Private Suite at LAX offers a high-end, backdoor way for VIP travelers to get onto and off commercial flights

Los Angeles

The next big Hollywood premiere will be at the airport, and it likely will reduce some of the chaos and clog at Los Angeles International.

The Private Suite, a remote terminal for VIPs, celebrities, CEOs and anyone willing to pay \$1,500 to \$4,000 for privacy and pampering at one of the world's busiest airports, will officially open May 15. It's already handling some clients as it works out operations with airlines, the Transportation Security Administration and Customs and Border Protection.

Luxury terminals for first- and business-class passengers have been growing around the world and are now found in at least a dozen major cities. They are proving to be both profitable and efficient, operators say, segregating passengers and crew who can slow security lines. They also foil paparazzi scrums that can injure bystanders and create traffic jams. Customers get driven in luxury cars to and from planes, as some airlines do now for top customers, too. At London's Heathrow Airport, 60,000 people a year use the VIP terminal, an airport spokeswoman says. The Private Suite is the first in the U.S.

Belinda Carlisle, lead singer of the Go-Go's, was one of the first to sign up and tweeted thanks to TSA after using the terminal last week on her way to China. (TSA's crack social media desk tweeted back that the agency was "head over heels" with the kudos, referring to one of her hit songs.)

"I've used this kind of service overseas and I'm so grateful it's now in the U.S.," Ms. Carlisle said by email after her flight.

Los Angeles' airport operator, TSA and CBP are supporting the private terminal because the daily stream of celebrities creates mob scenes. Airport police get tied up working celebrity crowd control and security lines come to a standstill as travelers snap photos and



videos. In exchange for staffing the private terminal, TSA negotiated to move other snarls out of main terminals. International flight crews, which can number more than 30 people and often march to the front of lines, will be screened at the new terminal to keep officers there busier and shorten main-terminal lines.

A Private Suite membership costs \$7,500 a year. Then each trip through costs \$2,700 for a group of up to four people traveling do-

mestically or \$3,000 for international flights. That's one way. Without a membership, prices are \$800 to \$1,000 higher, with fewer benefits. Shared space in a group lounge costs \$1,500 for members; nonmembers pay more.

Heathrow's VIP terminal charges about \$3,500 for up to three people in a private suite.

So far, Private Suite has sold 1,200 memberships, many of them bought at a discount by corporations for top executives or clients,



The Private Suite, above, offers travelers a private room. It was built to lessen paparazzi airport scrums like this 2015 appearance by Kim Kardashian, left.

says security consultant Gavin de Becker, who operates the terminal. The company's management expects it to be profitable by its third year.

Mr. de Becker, a well-known protector of celebrities, developed the facility with investors including David Bonderman's TPG Capital. (Mr. Bonderman is a former chairman of two airlines.)

The terminal has 13 private suites, including a room for infants with a changing table and bottle warmer, one for young children with a play yard and menu of available games, and one for Middle Eastern clients with prayer mats, a Quran and medjool dates.

Each private suite has a bathroom, a stocked refrigerator and snacks galore. Meals are available. Just about anything forgotten will be provided free: headphones, dress shirts and blouses, ties, socks, belts and shoes, dress hem tape, cuff links and raincoats.

"They can have sex in here, change clothes, have arguments—we never come in and never knock on the door without a phone call

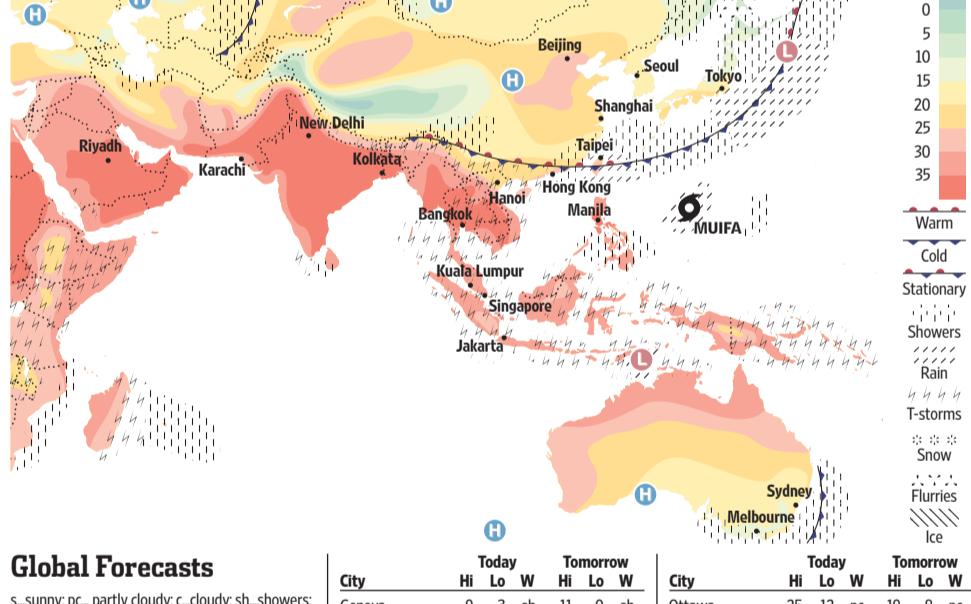
first to the room," says Mr. de Becker. The suites, he says, "give people the one thing they never get at an airport: peace."

The terminal is out of the main LAX traffic flow, avoiding the potential 45-minute slowdown for a pickup or drop-off because of traffic in the horseshoe roadway fronting major terminals. And it's deliberately hard to spot—an unmarked gray fence and lone guard shack.

The Private Suite has an airline bag-tag printer and carriers have agreed to send a representative to the terminal to verify ID and haul off checked luggage. Since passengers are on first- or business-class tickets, airlines are willing to go to lengths to win them over from private jets or rival carriers. Upon landing, a Private Suite worker goes to baggage claim and waits to retrieve bags while customers are in their suites.

The largest client group will be international arriving passengers, Mr. de Becker says, since they get the advantage of personal CBP inspection.

Weather



Global Forecasts

s=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	10	5	sh	11	4	c
Anchorage	11	4	c	11	3	pc
Athens	24	14	s	25	15	pc
Atlanta	26	18	pc	30	20	pc
Bahrain	32	17	s	30	20	pc
Baltimore	27	17	pc	28	18	pc
Bangkok	35	27	pc	34	26	pc
Beijing	28	12	s	32	14	pc
Berlin	12	1	sh	13	4	pc
Bogota	21	8	t	20	10	pc
Boise	10	1	pc	13	1	c
Boston	15	11	c	22	14	pc
Brussels	11	3	sh	11	1	sh
Buenos Aires	21	10	s	23	8	s
Cairo	29	16	s	30	17	s
Calgary	6	-2	sh	8	-1	sh
Caracas	32	26	pc	32	26	pc
Charlotte	26	17	pc	29	19	pc
Chicago	12	6	sh	17	5	c
Dallas	28	20	s	32	23	c
Denver	13	-1	r	11	-3	sh
Detroit	22	8	t	20	10	pc
Dubai	35	26	s	37	27	s
Dublin	10	3	c	11	5	c
Edinburgh	14	3	c	12	5	c
Frankfurt	13	2	sh	14	3	sh

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The WSJ Daily Crossword | Edited by Mike Shenk



ONE OR TWO THINGS | By Alice Long

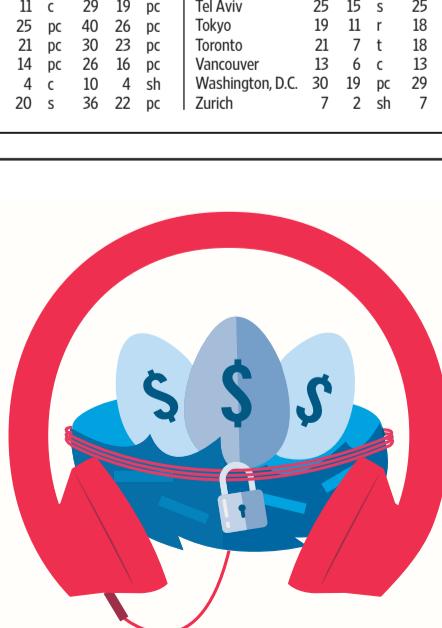
Across		
1	"Hell's Kitchen" host	23 Unguarded on the field
7	Dad's daughter	43 Oddballs of the mythical animal world?
10	Insubstantial	47 Young MC's "Bust ____"
14	Panini cheese	48 Island that hosts a state capital
15	Wine flavorer	49 Have high hopes
16	What to do while it counts	51 Celestial body
17	Circus vehicle that mows down pedestrians in its way?	52 Wooden strip
20	Rest-of-the-team stand-in	56 Shape and arrangement of a Sopwith Camel's parts?
21	Bird specialty	59 Loft bundle
22	Ready for a heist, say	60 James Dean's "East of Eden" role
		61 Switch magazines, say

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

62	Iowa State setting	27	Speller's clarification
63	Summer by the Somme	28	Leading indicator?
64	Unforested plain	29	Pandora released them
Down			
1	Electronica party	30	Resort amenity
2	"____ happens..."	33	Golfer Ernie
3	Shiny mineral	35	Nice surroundings
4	Head for distant ports	36	Cork country
5	Back	39	Comparative phrases
6	"Absolutely!"	41	Derisive snort
7	Stock offering?	42	It's picked in Hawaii
8	Anderson of Jethro Tull	44	Uncas's love
9	Review hastily	45	Driver's warning
10	Person to know, per Plato	46	Herculean dozen
11	Backwater place	49	"Waterloo" group
12	Like loafers	50	Where Anna taught
13	Hardship	51	Eye amorously
18	PlayStation producer	53	Standing on
19	Durango dwelling	54	Pipe bend
24	Darling	55	Murderous alter ego
25	Office clickers	57	"Dig in!"
26	Former SeaWorld performer	58	Convened

Previous Puzzle's Solution

HAMM	RICA	AMASS
OREO	ERR	INACAN
NEWSROOM	CANTBE	KASHI
JUDITH	GREAT	NOAH
ONITEACH	FRUMP	ONEA
SIS	CEREALS	POWERFORWARD
EXCIA	RENO	LAND
OLLIE	STALKS	TABLEMANNERS
TABLEMAN	AMBIL	OVAL
SILICA	BRAE	BYE
CALVED	OLD	NAIL
ANSEL	BYE	ANTE



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Read ambitiously

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, April 27, 2017 | B1

Yen vs. Dollar 111.5960 ▲ 0.45%

Hang Seng 24578.43 ▲ 0.50%

Gold 1263.60 ▼ 0.16%

WTI crude 49.83 ▲ 0.54%

10-Year JGB yield 0.019%

10-Year Treasury yield 2.325%

Credit Suisse Plans Capital Raise

By BRIAN BLACKSTONE

ZURICH—Credit Suisse Group AG said it planned to raise 4 billion Swiss francs (\$4.02 billion) of fresh capital and abandon plans for a partial sale of its Swiss unit as the banking giant reported a first-quarter profit that topped analysts' expectations.

The upbeat earnings report come as a welcome reprieve for the bank, which has been beset by steep losses and uncertainties over its longer-term strategy as it scales back from volatile, but sometimes very profitable, investment banking and moves toward

the more predictable business of managing money for wealthy clients.

Credit Suisse on Wednesday posted quarterly net income of 596 million Swiss francs (\$598.9 million), compared with a year-earlier net loss of 302 million francs, on a strong performance in its wealth-management and global-markets divisions. Analysts had anticipated net income of 332 million francs. Revenue rose 19% to 5.5 billion francs, in line with expectations.

"We view these as impressive results," analysts at Citi wrote.

Still, the bank faces challenges amid political uncer-

tainties that it said "weighed somewhat on client volumes in the first few weeks of April."

"We are confident in our medium-term growth prospects. However, due to these uncertainties, we remain cautious in the short term," it said.

In a move to bolster its finances, Credit Suisse said it would sell 4 billion francs of new shares, boosting its key core capital ratio to 13.4%. "I think this does take the capital issue off the table for Credit Suisse," Chief Financial Officer David Mathers told reporters. Shareholders will consider the proposal at

a meeting on May 18. The bank raised 6 billion francs in 2015, and Chief Executive Tidjane Thiam said a second capital increase was always in its plans.

"This is a time to raise capital," he said Wednesday, adding that the move will give the bank flexibility to pursue attractive investments.

Credit Suisse also said it was dropping a plan to spin off its Swiss banking unit. The bank will now retain full ownership of the subsidiary, which it had previously planned to partially float through an initial public offering in the sec-

Please see CAPITAL page B2



Chief Executive Tidjane Thiam

ANTHONY KWAN/BLOOMBERG NEWS

As Chips Spread, Industry Heats Up

By TIMOTHY W. MARTIN
AND EUN-YOUNG JEONG

Semiconductors give self-driving vehicles their brains, help servers crunch data and dictate how fast a smartphone can juggle texting and streaming videos. That has put the unheralded chips business at the front line of Silicon Valley's biggest battles today.

The proliferation of connected devices and big data is giving new clout to chip makers such as **Samsung Electronics Co.**, **Intel Corp.**, **Qualcomm Inc.** and **Toshiba Corp.**. The result is an unprecedented semiconductor boom, as surging demand pushes up prices and hands an advantage to firms that can secure huge quantities of the must-have components.

Prices of two main types of memory chips—one for content storage, known as NAND, and another giving devices their multitasking speed, known as DRAM—rose 27% and 80%, respectively, from July through March, according to DRAMEXchange, which tracks sales and prices.

Samsung, which has a dominant place in both markets, has benefited: chips represented almost 54% of its overall operating profit in the fourth quarter of 2016, up from 24% in the same period three years earlier. Samsung's shares have gained about 30% over the last six months, and in recent weeks have hit record highs. Other memory-chip makers, such as SK Hynix Inc., have recently reported earnings surges, while suppliers of semiconductor-manufacturing gear, such as Applied Materials Inc. and Lam Research Corp., have seen their shares skyrocket.

Semiconductors are in nearly every electronic gadget and home appliance. In 2014, there were 3.8 billion connected "things" world-wide, from televisions to baby monitors to thermostats, according to Gartner Inc., which projects that number will rise to 8.4 billion this year and 20.4 billion by 2020. Analysts estimate revenue from chips will double, if not triple, in the next decade.

"This is just the start," said Avril Wu, research director at DRAMEXchange.

The annual revenue of the chip business has almost doubled since 2003 to \$352 billion, according to IHS Markit—more than twice the output of the U.S. auto-manufacturing industry and more than what Americans spend at fast-food restaurants. A decade of consolidation, plus the steep cost of developing new chips, has discouraged new entrants and

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Please see CHIPS page B4

HNA Aims to Conquer the World



GAO LIN/IMAGINECHINA/ASSOCIATED PRESS

HNA, with its headquarters in Hainan province, has been rapidly acquiring overseas assets but also building up a heavy debt load.

Chinese conglomerate has a huge goal: global top 10 in revenue; 'full of hormones'

By KANE WU

As Chinese investment overseas surged last summer, one of the most aggressive of those investors, airlines-to-hotels conglomerate **HNA Group**, got an ultra-flashy private jet.

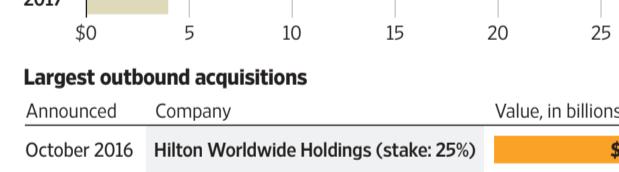
A 2,408-square-foot Boeing 787 Dreamliner that normally seats 300, the plane was tricked out with \$100 million worth of features such as marble-laminated bathrooms, Hermès flatware and Baccarat crystal. HNA planned to charter it to rich clients as well as to its own executives, according to people familiar with the plane and promotional videos.

Since then, China's outbound fever has cooled. Most Chinese deal makers have reined in purchases abroad after the government—worried about capital outflows—took

Going Global

China's HNA Group has been actively acquiring overseas assets. It aims to become a global top 10 company by revenue in the next decade.

HNA's* outbound acquisition volume, in billions



Largest outbound acquisitions

Announced	Company	Value, in billions
October 2016	Hilton Worldwide Holdings (stake: 25%)	\$6.5
February 2016	Ingram Micro	6.0
October 2016	CIT Group's leasing unit	4.0
July 2015	Swissport International	2.8
April 2016	Gategroup Holding AG	1.5

*Includes HNA Group, Bohai Leasing and Tianjin Tianhai

†Through April 24

Sources: Dealogic; staff reports

THE WALL STREET JOURNAL

steps to curb them.

Yet HNA has still managed to keep up a steady flow of overseas purchases—albeit smaller in size than some of

the multibillion-dollar deals it signed last year. And the Dream Jet has been busy ferrying executives and clients around the world: During the

past few months, plane-tracking sites show it hopping from Shanghai to New York, Denver, San Francisco and Hawaii.

"The company is progressing restlessly," said Gao Jian, the group's chief operating officer, who says he flew on the plane last year. "Everyone is passionate, full of hormones, dying to achieve things."

Based in China's Hainan province, closely held HNA Group started out as a local airline operator but now aims to become one of the globe's biggest international conglomerates. It has expanded into hotels, tourism, logistics, real estate and finance. Its total assets, at around \$146 billion in 2016, grew more than four times since 2010, when the company first started acquiring overseas companies. Its roughly \$90 billion revenue last year was also nearly 10 times the level in 2010. Some of HNA's most high-profile outbound acquisitions have been U.S.-based companies—a \$6.5 billion purchase of a 25%

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Bitterness Pervades Media Moguls' European Plans

By NICK KOSTOV
AND MANUELA MESCO

Two of Europe's richest men want to remake the continent's turmoil-wracked media business. First, they have to patch up their tattered personal and business relationships.

In January 2016, Silvio Berlusconi, the TV mogul and flamboyant former Italian prime minister, sat down for lunch with a longtime friend and business partner—Frenchman Vincent Bolloré, whose media conglomerate **Vivendi SA** spans music, TV and video-games. The lunch, at Vivendi's Paris headquarters overlooking the Arc de Triomphe, eventually blossomed into a bold, joint ambition: to create the Netflix of Europe by stitching together local content and distribution across the continent.

Those tiny, always-streaming cameras are a way to bring more of the world to light, be it to improve safety or document abuse. Under surveillance, a lot of bad behavior goes away. "Knowing is good. Knowing everything is better," goes another slogan. Emma Watson plays Mae Holland, a wide-eyed

*

"We talked about where the

world is going," said another person at the lunch. "The industrial desire to get married, to work together was on the table," this person said.

More than a year later, those efforts have unraveled into bitterness, pitting Mr. Bolloré's Vivendi against Mr. Berlusconi's **Mediaset SpA** in one of Europe's biggest recent corporate standoffs. Over the summer, as Mr. Berlusconi was recovering from open-heart surgery, Vivendi backed out of a deal to buy Mediaset's premium pay-TV, publicly questioning its performance.

Mediaset sued. Then in December, Vivendi started accumulating Mediaset shares on the open market, eventually spending €1.26 billion (\$1.35 billion) for an almost 30% stake. Mediaset accused it of orchestrating a hostile takeover.

Both sides still want a

friendly deal, according to people familiar with each camp. People familiar with Mr. Bolloré's thinking say he is counting on his large stake in Mediaset to force Mr. Berlusconi to the table.

"There are many reasons

why it's a win-win situation for both companies to resolve this conflict," said Vivendi Chief Executive Arnaud de Puyfontaine.

People familiar with the view of Mr. Berlusconi and Fininvest SpA, the family hold-

ing company that controls Mediaset with a 40% stake, said he isn't rolling over and wants Mr. Bolloré to return to the original pay-TV deal.

Italian regulators strengthened Mr. Berlusconi's hand earlier this month, ruling Vivendi must sell either its Mediaset shares or its 24% stake in **Telecom Italia SpA**, the telecom carrier that many executives see as more important to Mr. Bolloré's pan-European media ambitions. Vivendi said it would appeal.

A detente could reshape Europe's media landscape, where insurgent competitors are elbowing in on the turf of established players. Cooperation between Messrs. Bolloré and Berlusconi would consolidate their positions with a collection of content and distribution assets across Europe.

When the two companies

Please see MEDIA page B2

Silvio Berlusconi, left, and Vincent Bolloré have bold ambitions.



ANDREW MEDICHINI/ASSOCIATED PRESS
JEAN-PAUL PEUILLER/REUTERS

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MEDIA

Continued from the prior page were getting along, executives on both sides touted the idea of building a rival to Netflix Inc., the U.S. streaming service that is expanding across Europe. A particular strength of a Vivendi-Mediaset tie-up would be local-language content, which is currently in short supply at Netflix.

Other competitors, meanwhile, are roiling the industry. Rupert Murdoch's **21st Century Fox Inc.** is seeking regulatory approval for a \$15 billion deal to buy the 61% of British pay-TV giant **Sky PLC** it doesn't already own. That move would further bolster those two companies' content and reach across Europe. Mr. Murdoch and his family are major shareholders of both 21st Century Fox and **News Corp.**, the owner of The Wall Street Journal.

Mr. Bolloré, 65 years old, has made a fortune by swooping in and seizing control of businesses—sometimes in quick takeovers, and other times through slow, steady stake-building. In less than two years, he built a 5% stake in Vivendi into a 20% controlling interest.

Under Mr. Bolloré, Vivendi

targeted assets to marry with its existing core media businesses including Universal Music Group and French pay-TV company Canal Plus. Last year, he orchestrated a hostile takeover of mobile-game developer Gameloft SE.

He has also built up a roughly 25% stake in Ubisoft Entertainment SE, the maker of the "Assassin's Creed" video-game series. Ubisoft Chief Executive Yves Guillemot recounts that two hours after a friendly call with Mr. Bolloré, Vivendi surprised him by announcing it had bought up 6.6% of the company.

"It was a really bad start," Mr. Guillemot said. Vivendi wants board representation but has been rebuffed by Mr. Guillemot.

In September, Mr. Bolloré sent an email to Mr. Berlusconi on his 80th birthday, wishing him a speedy recovery from his heart surgery, according to a person familiar with the matter. Mr. Berlusconi responded almost immediately. He thanked him, saying "let's hope we can finally work together." Since then, though, the companies have had virtually no contact, people familiar with the situation say.

—Stu Woo contributed to this article.

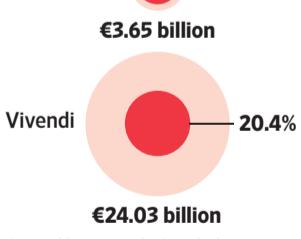
Media Stalemate

Two of Europe's most powerful magnates have been maneuvering warily through on-off talks to cooperate on a pay-TV venture.



Silvio Berlusconi

MARKET CAP
Mediaset €4.5 billion
39.8%



Vincent Bolloré

MARKET CAP
Havas €3.65 billion
60.0%

Note: 1 Euro = \$1.09

Photos: Berlusconi, Alessandra Benedetti (Corbis/Corbis via Getty Images); Fred Tanenbaum (AFP/Getty Images)

Sources: Factset; the companies

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BUSINESS & FINANCE

U.S. Braces for Threats in Space

Defense Department urges development of weapons to be used beyond atmosphere

BY ANDY PASZTOR

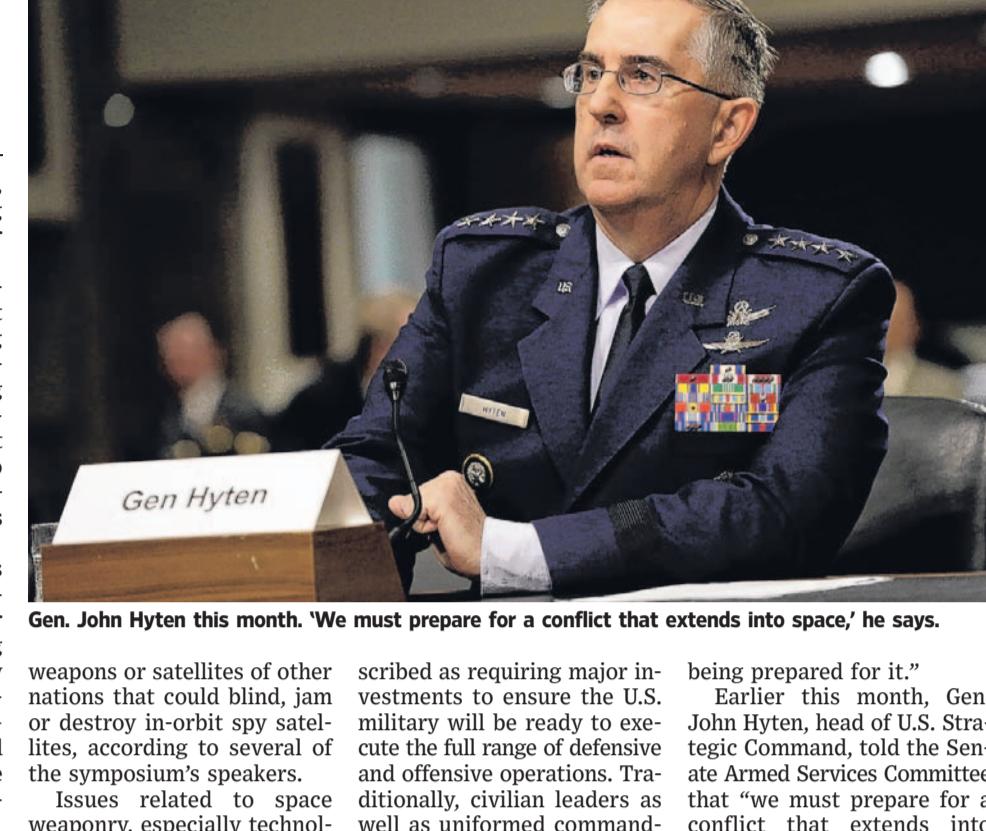
COLORADO SPRINGS, Colo.—The Pentagon is getting serious about gearing up for potential space combat.

Breaking with a decades-long policy that stopped short of publicly advocating putting arms in orbit, U.S. Defense Department leaders are calling for faster development of offensive weapons and combat tactics for space, initially to protect the biggest, most expensive U.S. spy satellites from potential attacks.

The extent of the shift was evident at a recent space symposium here, with one senior general after another calling for more-advanced weaponry and updated rules of engagement that—for the first time—specifically would be designed to counter moves by hostile spacecraft beyond the atmosphere.

"We will be threatened in space, and we need to be prepared for that," said Brig. Gen. John Shaw, deputy director of global operations at Strategic Command, the Defense Department unit in charge of nuclear and other long-range weapons. "There isn't something special as a space war," he told the conference, that ought to be considered separately from naval or land combat.

The Air Force is working closely with the National Reconnaissance Office to devise offensive strategies against



Gen. John Hyten this month. "We must prepare for a conflict that extends into space," he says.

weapons or satellites of other nations that could blind, jam or destroy in-orbit spy satellites, according to several of the symposium's speakers.

Issues related to space weaponry, especially technology that can disrupt hostile spacecraft, are among the Pentagon's most closely guarded secrets. Though research has been under way quietly for decades and military leaders in the past few years targeted billions of extra dollars to ensure space superiority, details are highly classified and companies involved in the effort aren't public.

Recent comments by Pentagon leaders underscore the growing importance of the topic. Throughout the speeches and panels earlier this month, space was de-

scribed as requiring major investments to ensure the U.S. military will be ready to execute the full range of defensive and offensive operations. Traditionally, civilian leaders as well as uniformed commanders have tended to avoid explicit calls for speedy deployment of offensive systems.

In a classified briefing at the same conference, Robert Work, the Defense Department's No. 2 civilian official, highlighted that all of the Pentagon's efforts are aimed at deterring attacks, rather than instigating hostilities.

"We're not interested in getting into [a] fight" in space, Gen. John Raymond, head of Air Force Space Command, told the conference on a different day. "Nobody wins that fight, but we are interested in

being prepared for it."

Earlier this month, Gen. John Hyten, head of U.S. Strategic Command, told the Senate Armed Services Committee that "we must prepare for a conflict that extends into space" through defensive measures, but also by building "an offensive capability to challenge" adversaries.

This week, during a telephone hookup earlier with astronauts orbiting the earth, reporters heard President Donald Trump allude to U.S. capabilities with "tremendous military applications in space," without elaborating.

Early snippets of such tough talk emerged years before Mr. Trump took office, as uniformed commanders grew concerned about vulnerabilities of their space systems.

Fox News Host Joins Bias Suit

BY JOE FLINT

An African-American on-air host for Fox News has joined a group of current and former employees suing the cable channel and some of its senior executives for alleged racial discrimination.

Kelly Wright, who is a Saturday afternoon anchor for Fox News and a former co-host of the weekend edition of "Fox & Friends," is one of 11 current and former employees seeking class-action status for their lawsuit.

Mr. Wright claims in the suit that his race has held him back at the channel and that he has been "asked to perform the role of a 'Jim Crow'—the racist caricature of a Black entertainer."

A 14-year Fox News veteran, Mr. Wright said he hasn't been offered the same chances for advancement as his white colleagues and that he was "forced to endure many racist comments," according to the complaint. He added it is a running joke among the cast and crew at Fox News that he would get more airtime if "he dyed his hair blonde."

The suit, which was originally filed in the New York State Supreme Court in Bronx County last month by two black women who worked in the payroll department at Fox News, has been amended to include 11 people. Aside from Mr. Wright, the rest of the plaintiffs are current and former employees at the channel who work in payroll and accounting.

The lawsuit accuses Judith Slater, the longtime comptroller of Fox News until she was fired earlier this year, of racial discrimination and of making racist comments to her staff. Fox News General Counsel Diane Brandi is also a defendant in the suit, as is Fox News parent company **21st Century Fox**.

Fox News and Ms. Brandi "vehemently deny the race discrimination claims," a spokeswoman for the network said in a statement. "We will vigorously defend these cases."

In a statement, Catherine Foti, an attorney for Ms. Slater, called the lawsuit against her "meritless and frivolous."

21st Century Fox and Wall Street Journal parent company News Corp share common ownership.

HNA

Continued from the prior page stake in Hilton Worldwide Holdings Inc., a \$6 billion deal to buy technology distributor Ingram Micro Inc. and a \$4 billion purchase of CIT Group's leasing business.

HNA is continuing to expand overseas, even as many other ambitious compatriots stall. Among China's erstwhile highfliers, Dalian Wanda Group Co., a big acquirer of Hollywood companies, earlier this year canceled a \$1 billion purchase of U.S. production company Dick Clark Productions Inc. after it couldn't get Chinese government approval to move the funds overseas.

HNA has borrowed heavily to acquire more assets, many of them overseas. Recently, it has been tapping cash from those global operations or using them to help raise funds for more purchases, letting HNA largely sidestep China's increasingly strict capital controls, bankers say.

HNA Group and its subsidiaries have about \$9.7 billion in bonds outstanding, putting it among China's top 30 most indebted companies, according to Dealogic. The heavy debt load has led at least one big Chinese bank to become more cautious about lending to HNA, said a senior corporate-finance officer at the bank.

HNA executives say the group is trimming its debt level. HNA and its affiliates have announced eight outbound deals valued at \$4 billion since January, in countries from Poland to New Zealand, according to Dealogic.

The group is pushing hard in the U.S., where it has invested some \$36 billion over the past six years, and has set up a unit of its finance arm, HNA Capital. The company has

been making connections with U.S. financial and political power brokers, including **Blackstone Group** Chairman Stephen Schwarzman.

For deals, HNA is "the only game in town at the moment," said a senior M&A banker in Hong Kong, who has advised HNA on some of its purchases.

Some observers are speculating that HNA has gained an advantage through political ties. Chinese press attention has focused on the company's ownership and funding after Chinese real-estate-tycoon-in-exile Guo Wengui recently suggested, via Twitter and in an interview with Voice of America, that there are connections between HNA and a senior Chinese leader. The Dream Jet, he said, has been used as a venue for entertaining the

leader's relatives. Mr. Guo didn't offer evidence for his claims. HNA declined to comment on Mr. Guo's claims.

HNA was co-founded in 1993 by former aviation bureaucrat Chen Feng on China's southernmost island province of Hainan. It currently has the company's employees and an HNA charitable foundation among its shareholders, according to HNA executives.

Initially formed with money from Hainan's local government to run its only airline, HNA's group holding company no longer has state ownership, HNA's Mr. Gao says. Its headquarters features an eclectic mix of Roman columns, Taoist sculptures, a red and yellow chandelier designed by American glass sculptor Dale Chihuly and six giant works by Liu Yuyi, a Chinese painter known

BUSINESS NEWS



Daimler Smart Fortwo vehicles at Shanghai auto show this month. The auto maker's quarterly net profit doubled to \$2.94 billion.

Europe Car Makers Upbeat

Results from Fiat Chrysler, Daimler and Peugeot further boost confidence on recovery

By ERIC SYLVERS

The European car industry received a confidence boost Wednesday as the continent's manufacturers continued to post a raft of positive first-quarter results, raising expectations that the region will join the U.S. in returning to its precrisis record for new vehicle sales.

Fiat Chrysler Automobiles NV reported results that beat expectations, leading to a jump in the company's stock.

Daimler AG, the maker of Mercedes-Benz cars, said quarterly net profit had doubled as sport-utility vehicle sales surged, and the company raised its forecasts for the year. **Peugeot**, which during the first quarter reached an

agreement to buy **General Motors** Co.'s European business, reported a 4.9% rise in revenue that beat expectations. Wednesday's results come after strong showings last week from **Volkswagen AG** and **BMW AG**.

Car makers sold 14.6 million new vehicles in the EU in 2016, the highest number in almost a decade, yet the region has had a long journey back from the financial crisis, and volume is still about 6% below the precrisis high set in 2007. That compares with the U.S., where auto makers sold 17.6 million vehicles in 2016, a second straight yearly record.

The European recovery has been uneven, with some countries, including Germany and the U.K., passing their pre-recession highs for car sales. Those on the southern edge of the continent, such as Italy, haven't made it yet.

The first-quarter results and upbeat forecasts will help

to appease an industry that has been on edge despite recent signs of improvement. Enthusiasm for incremental advances in car sales since early 2016 have been tempered by political upheaval such as the U.K.'s vote to leave the EU and terror attacks across the region.

So far, car sales in the U.K.—the region's second-biggest market after Germany—have remained buoyant despite the Brexit vote and the small price rises that several companies introduced to help offset the fall in value of the pound.

Fiat Chrysler reported an 11% increase in first-quarter profit as revenue advanced and the Italian-American car maker improved results in its two main markets. In the U.S., profit inched up 1% even as the company sold 6% fewer vehicles. The results cheered investors who had been expecting worse after Chief Executive Sergio Marchionne said earlier

this month that the first quarter was "difficult." The car maker also confirmed its ambitious full-year targets.

The company's shares were 8% higher in afternoon trading Wednesday in Milan, the best performing auto stock in Europe.

Daimler's net profit in the three months to the end of March doubled to €2.7 billion (\$2.94 billion). The company said revenue and operating profit would "increase significantly" this year.

Peugeot, known as Group PSA, said revenue in the first quarter rose to €13.6 billion as sales of higher-margin new cars helped offset currency pressure. The company expects the automotive market to grow by about 1% in Europe this year.

Paris-based **Peugeot** is focusing on Europe with its acquisition of GM unit Opel, which will boost auto sales there by 50%, making it the region's second-largest car maker after Volkswagen.

Big Consumer Brands Feel Pinch

The biggest sellers of consumer products, from soda to diapers, are sounding a cautious note on shopper spending amid broader retail woes.

By Sharon Terlep,
Jennifer Maloney
and Annie Gasparro

Executives from **Procter & Gamble Co.**, **PepsiCo Inc.** and **Nestlé SA** said slowed spending in the U.S. cut into results in the most recent period, though they don't all agree on the reasons. Several said they expect business to pick up later in the year.

Some blamed the weak start of the year on higher gas prices, bad weather and other external factors, while other executives pointed to shifting consumer tastes. Analysts say some big brands, such as **Gillette** and **Yoplait**, are losing ground to upstarts. Overall purchases of consumer packaged goods in the U.S. declined 2.5% in unit terms in the first quarter, according to Nielsen.

There are "probably more sources of volatility today than at any other time in history," P&G Chief Financial Officer Jon Moeller said Wednesday in a call with reporters.

The most recent period was P&G's weakest of the fiscal

year as organic sales—a closely watched metric that strips out currency moves, acquisitions and divestments—increased just 1%.

Mr. Moeller said consumers are cutting back purchases, aggressively seeking deals and drawing down supplies at home. At the same time, he said, a growing affinity for beards has played a big part in driving down razor sales, which contributed to a 6% organic sales decline for P&G's grooming unit.

P&G, PepsiCo and Nestlé are seeing slowed consumer spending in the U.S.

Although pricing increases helped PepsiCo post growth in its beverage and snacks businesses in its latest quarter, sales declined in its **Quaker Foods North America** unit, which sells grocery staples such as Rice-A-Roni, Aunt Jemima and its namesake oatmeal.

PepsiCo, like big food rivals **Kraft Heinz Co.** and **Nestlé**, is struggling as consumers shift away from diet sodas and processed foods. It has launched

new products, such as a premium bottled water brand, to adjust to the shift.

For food and nonfood staples, big brands are struggling more than the overall industry.

The 20 largest consumer packaged-goods companies last year had flat sales while smaller ones posted sales growth of 2.4%, according to Nielsen.

Wal-Mart Stores Inc., meantime, has been reducing inventories and slashing prices as it fights to compete with **Amazon.com Inc.** and European discounter moving into the U.S.

Kimberly-Clark Corp. this week reported its first quarterly organic sales decline in 13 years, driven largely by falling demand in North America. The maker of Kleenex tissues and Huggies diapers lowered its forecast for the year but said it expects better performance as the year progresses.

Nestlé Chief Executive Mark Schneider said weak U.S. demand isn't an issue isolated to **Nestlé** and that it reflects a breakdown in the usual relationship between economic growth and consumer spending. At the same time, he said, intense competition is making it harder to push through price increases.

—Brian Blackstone contributed to this article.

HYUNDAI Firm's China Sales Suffer Amid Rift

Hyundai Motor Co. revealed the financial fallout from a diplomatic flare-up between Seoul and Beijing over a U.S. missile-defense system, as a drop in China sales dragged down first-quarter net income 21% from a year earlier.

Hyundai said Wednesday that revenue in China, the South Korean auto maker's largest market, fell 14% from the previous year and 46% from the last three months of 2016. By contrast, U.S. sales in the first quarter rose 10% compared with the October-to-December period.

The company's net income totaled 1.4 trillion won (\$1.2 bil-

lion), compared with 1.8 trillion won a year earlier. Overall revenue rose 4.5% to 23.4 trillion won, aided by year-over-year sales growth in Russia, Brazil and India.

The Seoul-based auto maker's pain in China comes against the backdrop of the continuing dispute over the deployment of the Terminal High-Altitude Area Defense, which Beijing opposes.

A Chinese consumer boycott of South Korean goods and stores has bruised South Korean firms.

—Timothy W. Martin

TICKET MONSTER Company Raises \$115 Million in Funds

South Korean mobile-com-

merce company **Ticket Monster Inc.** said Wednesday it has raised \$115 million in fresh funding, but at a lower valuation than a previous round last year, underscoring the recent struggles of once-hot technology startups to attract investors.

KKR Co.-backed Ticket Monster said its new round of funding values the company at \$1.3 billion, lower than its previous valuation of \$1.5 billion following an investment last year.

Ticket Monster's reduced company valuation, increasingly common in Silicon Valley in recent months, highlights the challenges that young tech firms are finding in drawing investors willing to bet money on companies without a proven business model.

—Eun-Young Jeong

Twitter Falters, But Shares Leap

By GEORGIA WELLS

Twitter Inc. on Wednesday reported its first quarterly decline in revenue since going public, highlighting the stagnation the social-media company is battling.

Still, the company's results weren't as bad as the market had expected. Shares in Twitter were up 10% at \$16.13 at midday Wednesday.

Twitter's revenue in the first quarter fell 8% to \$548.3 million, compared with analyst expectations of \$511.9 million, according to Thomson Reuters. Twitter posted an overall loss of \$61.6 million, or nine cents a share.

Excluding certain items, the company posted earnings of 11 cents a share, above the average analyst estimate of a penny a share.

Twitter said it added nine million new monthly users during the first quarter, bringing its total user base to 328 million. For comparison's sake, over the same period, President Donald Trump added 8.9 million new Twitter followers. Many analysts expected Twitter to add about two million monthly users in the quarter. Twitter, which has posted net losses every quarter since going public in late 2013, has set a goal of "driving toward"

profitability in 2017.

To achieve its goal, Twitter needs to squeeze more money out of each user. Currently, Twitter earns about half as much per user as Facebook Inc., "and we are not sure it can close the gap entirely," said RBC Capital Markets analyst Mark Mahaney in a note ahead of Twitter's results.

Data firm eMarketer expects Twitter's share of worldwide digital ad spending to shrink slightly to 1% this year, and Twitter's share of the mobile ad market to also contract to 1.5% this year. Twitter's global ad revenue in the first quarter fell 11% to \$473.8 million from a year earlier. Advertising makes up about 85% of the company's revenue.

One of the bright spots in Twitter's advertising effort has been in video. But Twitter's second quarter is off to a challenging start already.

In early April, Amazon.com Inc. outbid Twitter for the National Football League streaming rights to 10 Thursday night games in the coming season. For the second quarter, Twitter projected adjusted earnings before interest, tax, depreciation and amortization of between \$95 million and \$115 million—less than the \$141 million analysts expected, according to FactSet.



The service added nine million new monthly users in first quarter.



Arceau, Le temps suspendu
Experiencing time for yourself.



TECHNOLOGY

WSJ.com/Tech

Tencent Opens U.S. Data Center

By LIZA LIN

Chinese internet company **Tencent Holdings** Ltd. opened its first data center in Silicon Valley this week, expanding cloud-computing services into the U.S. even as American companies complain they face growing restrictions when doing the same in China.

With Wednesday's statement, Tencent becomes the second Chinese company to open such a center in the U.S.'s technological heartland. **Alibaba Group Holding** Ltd., China's largest e-commerce company, already operates two data centers there and a third on the East Coast.

Alibaba and Tencent are boosting their cloud-computing businesses as they seek to tap the growth of Chinese companies and their demand for computing power overseas.

Cloud platforms offer storage, computing and networking resources to help companies grow at lower costs. Data is stored and accessed over the internet, reducing the need for on-site servers.

Tencent's statement comes a month after a group of U.S. lawmakers wrote a letter to China's ambassador, Cui Tiankai, in Washington over China's limits on cloud com-



Tencent's headquarters in Shenzhen, China. The company is adding cloud services in Silicon Valley.

puting for foreign companies.

Beijing already requires overseas cloud providers to form joint ventures to operate in the country. It has proposed requiring them to turn over essentially all ownership and operations to Chinese partners, the lawmakers argued in the letter viewed by The Wall Street Journal. This could re-

sult in the transfer of valuable U.S. intellectual property, according to the letter.

"The access for foreign cloud companies in the market today is much more restrictive than it has been in the past," said Jake Parker, the vice president for China operations at the U.S.-China Business Council, an organization that

represents 200 U.S. multinational companies operating in the country.

In November, China's Ministry of Industry and Information Technology put out a draft notice of an industry regulation that would potentially shift a lot of operational control to the Chinese partner, he said. The final version has

chip costs about \$24.

Looming large on the semiconductor battlefield is Samsung, the world's largest smartphone maker and the biggest player in memory chips with a growing presence in logic semiconductors.

E.S. Jung, a Samsung Electronics executive vice president, who oversees its semiconductor research and development center, points to a new storage chip that took 15 years to develop—and which has helped fatten the firm's bottom line. "Most of the competitors gave up," Mr. Jung said. "But we never stopped research."

It is rare for new products to be delayed due to a shortage of chips, as companies secure inventories about six months ahead. But companies may have to compromise by using chips that take up more space in a device or use more battery power.

Device makers and tech firms sometimes aggressively buy chips to build inventory and avoid paying higher prices when supply is low, said Mehdi Hosseini, senior analyst in technology hardware at investment firm **Susquehanna Financial Group**.

Consumers can end up paying more for some devices because of rising chip prices. Apple Inc.'s next iPhone is expected to cost \$100 to \$200 more per device to make than last year's iPhone 7, with memory chips accounting for \$50

to \$60 of that increase, according to Mr. Hosseini.

Samsung's memory-chip costs rose about \$10 for its newest flagship device, the Galaxy S8, versus the prior-year model, according to IHS Markit. The increase in memory-chip costs are lower for Samsung, in part, because Apple is expected to use a faster multitasking chip for the iPhone 8 that is similar to what last year's Galaxy S7 and this year's S8 have featured.

The new iPhone will cost around \$1,000, according to analysts, while the standard Galaxy S8 retails at around \$750.

—Ted Greenwald contributed to this article.

CHIPS

Continued from page B1
allowed a handful of established companies to vacuum up profits.

Intel is the world's largest chip maker with 2016 revenue of \$55 billion, according to IHS Markit, even in a year when it exited the smartphone and tablet markets after betting on the wrong wireless technology and racking up losses. The next largest players in chips are Samsung, with \$40.3 billion in revenue last year, and Qualcomm at \$15.4 billion. Contract manufacturers, such as Taiwan Semiconductor Manufacturing Co., aren't included in IHS's overall semiconductor data.

The chip industry includes three major segments representing more than half its revenue. Logic chips give devices their brains and computing power, priced at roughly \$75 for a computer and \$4,000 or more for a data-server component used by Amazon.com Inc. or Facebook Inc. The other two are the memory chips: NAND semiconductors determine how much data or content—music or photos, for instance—can be stored on phones, laptops or tablets. They cost about \$25 for 32 gigabytes of storage. And DRAM semiconductors determine devices' multitasking speed; a standard

Gamble in the '70s Eventually Pays Off

Semiconductors are raking in profits for **Samsung Electronics** Co., but the company's foray into chips more than 40 years ago didn't come easily.

Lee Kun-hee, now the South Korean conglomerate's chairman, faced skepticism from Samsung's leadership about a push into semiconductors.

Among the doubters was his father, the company founder, according to a person familiar with the matter. At the time, Samsung was known more as a food, textiles and logistics

empire that had just started producing black-and-white televisions.

But in 1974, Mr. Lee was so bullish on the potential of chips that he invested his personal money to buy a 50% stake in the financially troubled **Korea Semiconductor**. Mr. Lee's father eventually was persuaded, too.

"They made a very important decision based on their belief that the future would be in the information-technology world," said E.S. Jung, a Samsung Electronics executive vice president, who oversees its semiconductor R&D center.

In 1980, Samsung's semiconductor unit—which had started off making chips for

wristwatches—was absorbed into Samsung Electronics.

Mr. Lee's gamble paid off. In 1992, Samsung became the first company to develop a 64-megabit DRAM chip, a key PC component, surging ahead of Japanese competitors.

Samsung now has around 50% global market share in DRAM chips and 37% in storage chips. Samsung is a newer entrant in outsourced manufacturing of high-end semiconductors, a business dominated by Taiwan Semiconductor Manufacturing Co. Despite its small scale, the South Korean company has major clients such as Apple Inc. and Qualcomm Inc.

—Timothy W. Martin

FOWLER

Continued from page B1
new employee who drinks the Kool-Aid—and finds that mediating life through the TruYou social network starts to distance her from her family and real relationships.

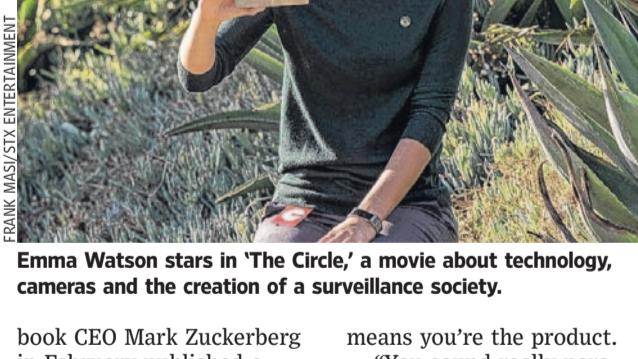
The proliferation of those cameras makes Mae feel like she's always performing, minus the brief freedom afforded by using the toilet (a camera-free zone). Self-broadcasting fuels a form of internet lynching. Without giving away the plot, let's just say it spirals into something akin to the East German Stasi.

Privacy is fundamental to humanity, says Mr. Ponsoldt. "If you're being watched, you're not really free."

Our reality is in some ways scarier. People use Facebook, Google and Twitter in ways their creators never expected—and don't know how to control. Instead of creating more empathy, social networks fueled division in the 2016 election.

Facebook's year-old live broadcast tech has spawned such a crime spree that Chicago officials last week asked the company to shut it down for 30 days while they try to figure out how to stop bad behavior from going viral. All five of the world's five most-valuable corporations are tech companies, and they reach billions of people, deep in society.

But they want more. In an eerie echo of the film, Face-



Emma Watson stars in 'The Circle,' a movie about technology, cameras and the creation of a surveillance society.

book CEO Mark Zuckerberg in February published a manifesto in which he said his social network isn't satisfied with connecting friends—it wants to become "social infrastructure."

While Mae works in customer support, real tech companies are dominated by engineers who have never met a problem they can't fix with enough data.

No single real company is as powerful as the movie's Circle (yet), but the privacy intrusions accumulate. If you check your phone settings, you might be surprised by just how many apps are slurping up location and activity data—even when you're not using them. Only suggested in the film, there is an often unspoken business imperative driving tech products: collecting data to sell and target marketing.

As the saying goes: When the product is free, that

means you're the product.

"You sound really paranoid if you talk about it, or make a movie about it," said Mr. Ponsoldt. "But I am shocked that people don't talk about it more."

That insatiable hunger for data is perhaps the most disturbing parallel between the fictional Circle and Silicon Valley. The goal here really is to index reality, with live data from your messages, photos, body, car, oven and lightbulbs. They don't call it "radical transparency" like they used to, but this is why Facebook got into the business of live video and Snapchat's creator started putting cameras into glasses.

Even Hollywood couldn't make up some of this stuff. This month both Facebook and Elon Musk separately announced they have researchers working on tech to allow computers to tap directly into brains.

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FUND NAME NAV %RETURN—
FUND NAME GF AT LB DATE CR NAV YTD 2-YR

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CAM-GTF Limited OT MUS 04/25 USD 31.0167.83 2.7 7.3 -5.0

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China A-Share Fund C A AUD H OT HKG 04/25 AUD 12.80 8.6 15.5 -5.4

China A-Share Fund C A AUD H OT HKG 04/25 AUD 11.77 7.7 15.1 -6.2

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Hi-Div Stk Cts A2 RMH H MDls OT HKG 04/25 OH 10.00 10.8 22.4 2.4

FINANCE & MARKETS

Tax Plan Is Likely To Boost Earnings, Big Banks

By WSJ STAFF

President Donald Trump's proposal to cut corporate taxes and reduce the top tax rate on pass-through businesses, including many owner-operated companies, to 15% from 39.6%, White House officials familiar with the proposal have said.

Here's what the change would mean for Wall Street:

Earnings

The tax plan could potentially provide a big lift to corporate earnings for publicly traded companies.

Every 1-percentage-point reduction in the effective tax rate—what companies actually pay—could increase expected earnings for companies in the S&P 500 by \$1.34 a share, according to calculations by S&P Global Market Intelligence.

That might breathe new life into a long stock-market rally. Many investors have become worried that stocks are starting to look expensive, and tax cuts "would alleviate much of the concern about valuations," said Bruce Bittles, chief investment strategist at Robert W. Baird.

—Aaron Kurilloff

Small-Cap Stocks

Many investors expect a corporate-tax cut to boost small stocks more than shares of larger companies.

Their reasoning: Multinational companies are able to defer U.S. taxes on profits earned overseas, but many smaller firms make most of their profits on domestic sales.

—Corrie Driebusch

Banks

Banks could get a double benefit from a tax cut. It would fatten their own bottom lines but also those of customers. If customers then invest more and spur economic growth, that could fuel more lending, further bolstering banks' profits.

One fly in the ointment, at least for some big banks: Citi-group Inc. and Bank of America Corp. are sitting on huge piles of deferred tax assets—\$46.7 billion and \$19.2 billion, respectively, of credits and deductions that can be used to reduce future tax bills. The banks would likely have to write down a portion of these assets if tax rates are cut, resulting in billions of dollars in charges that reduce profits.

That would be a one-time event, while the gain to profits would be permanent.

—Michael Rapoport

Accounting Firms And Hedge Funds

Lowering the rate on pass-through income could enhance the appeal of these businesses. But it may also change taxpayers' behavior, some observers said, especially if the top rate on personal income is 37%.

"A large risk is that business owners will transform their wages or compensation income to avoid income, Medicare and even Social Security taxes," says Michael Graetz, a former Treasury official who now teaches at Columbia University's law school.

—Laura Saunders

Berkshire Hathaway

One major company that would benefit from a lower corporate tax is Warren Buffett's Berkshire Hathaway Inc., which generates most of its revenue within the U.S.

A 15% corporate-tax rate would increase Berkshire's book value by 13%, or about \$36 billion, Barclays PLC estimated in February based on the company's 2016 results.

But a change to the repatriation of foreign profits would have little effect on Berkshire, Mr. Buffett wrote in a letter to shareholders this year.

—Nicole Friedman

Standard Chartered Results Rise

A decline in bad loans helps Asia-focused bank, lifting hopes of a restored dividend

By MARGOT PATRICK

LONDON—Standard Chartered PLC said Wednesday its restructuring strategy is paying off, raising expectations the beleaguered bank will start paying dividends again soon.

The Asia-focused bank said first-quarter profit before tax was \$990 million, almost double the \$500 million the bank made in the first quarter of 2016, mainly because of a sharp drop in bad loans. Revenue rose 8% to \$3.6 billion, helping send the bank's shares up 4% in London after the announcement.

Standard Chartered is repositioning its business after overexpansion in the 2000s gave way to increasing bad loans and a struggle to keep up with rising regulatory demands. Chief Executive Bill Winters took over in June 2015 and has been shedding



Standard Chartered shares surged 23% in the first six weeks of the year and are now up about 13%.

assets and business units.

The bank is in the process of shutting down its principal finance business holding private-equity stakes in growing companies, following hefty losses in that unit.

Chief Financial Officer Andy Halford said dividend payments will be considered by the board this year after payouts were put on hold in 2016.

He said the decision will consider any coming rise in capital requirements from rules still under review by global regulators, as well as the longer-term outlook for profits.

"It is encouraging that we're seeing signs of the bottom line picking up quite significantly," Mr. Halford told analysts.

ISAAC LAWRENCE/AGENCE FRANCE PRESSE/GETTY IMAGES

In the first six weeks of 2017, the bank's shares surged 23% on hopes for stronger global economic growth and rising interest rates this year, then settled back when oil prices fell in March. Gains so far this year are now about 13%.

Standard Chartered is often treated by investors as a proxy for emerging markets and commodities since it is a major lender to commodity producers and has large retail and business banking operations in Hong Kong, Singapore and India.

Its turnaround effort started later than those of rivals that also had to adjust their business models for the new bank rules regime, and some analysts continued to urge caution Wednesday on the outlook for improvements at the bank this year.

"We see evidence of a gentle jog in today's numbers, but any notion of a return to 'normal' levels of profitability remains distant," wrote Ian Gordon, a banking analyst at Investec Securities.

Santander's Net Climbs 14%

By JEANNETTE NEUMANN

MADRID—Banco Santander SA said Wednesday that its first-quarter net profit rose 14%, as the bank made progress boosting its capital ratio.

Santander, one of Europe's largest lenders, said its net profit totaled €1.87 billion (\$2.04 billion) for the quarter, compared with €1.63 billion a year earlier. That beat analysts' estimates that the company would report a net profit of €1.75 billion for the latest period, according to a poll by data provider FactSet.

Fees were particularly strong in the first quarter, rising 19% to €2.84 billion year over year.

The Spanish lender said its first-quarter net interest income totaled €8.4 billion, compared with €7.62 billion a year earlier. That beat analysts' estimates for net interest income of €8.14 billion, according to FactSet.

Net interest income, an important profit driver for retail banks, is the difference between what lenders earn from loans and pay for deposits.

"While the environment continues to be challenging for the banking sector, the outlook for Santander is positive," Santander Executive Chairman Ana Botín said in a written statement. "The economies of all our core markets are expected to grow this year."

Santander's capital ratio was 10.66% in March, compared with 10.55% in December, under international regulations known as "fully loaded" Basel III criteria. Santander has among the lowest ratios of major European banks, and investors are closely watching how it builds capital.

In Brazil, where the bank generates about one-fourth of its earnings, first-quarter net profit rose 77% to €634 million from €359 million amid rising lending income and fees. Taxes and loan-loss provisions, on the other hand, rose when calculated in euros.

In the U.K., where Santander generates roughly one-fifth

of its profit, a year-over-year decline in lending income and fees triggered an 8.2% decline in net profit to €416 million when calculated in euros.

Britain's impending exit from the European Union has pushed sterling down against the euro.

Santander's Spanish banking unit booked an 18% increase in first-quarter net profit, buoyed by higher fees and lower loan-loss provisions.



Chairman Ana Botín says Santander's outlook is positive.

State Street Results Improve but Suffer From Fund Outflows

By AUSTEN HUFFORD

State Street Corp. posted increases in assets under custody and administration in the first quarter, as market appreciation and growth in U.S. asset managers and electronically traded fund flows were partially offset by continued outflows from hedge funds.

Last month, State Street began pushing big companies to put more women on their boards by demanding change at firms without any female directors. The company was also responsible for placing the "Fearless Girl" statue of a young girl facing Wall Street's iconic bronze bull.

The company is also developing a tool for asset managers, pensions and endowments that lets them screen investments for environmental, social and governance risks, aimed at capitalizing on the appetite for responsible investing.

State Street said it had first-quarter net outflows of \$11 billion, with \$12 billion in exchange-traded-fund inflows being offset by a net \$26 billion institutional outflow.

In all, the Boston-based trust bank reported quarterly earnings of \$446 million, or \$1.15 a share, up from \$319 million, or 79 cents a share, in the same period a year earlier. On an operating basis, earnings were \$1.21 a share. Revenue grew 7.4% to \$2.67 billion.

Analysts polled by Thomson Reuters had expected \$1.10 a share in earnings on \$2.74 billion in revenue.

Assets under custody and administration increased 11% from a year earlier, to \$29.83 trillion, and 3.7% from the previous quarter.

Fees, which represent about 80% of the bank's top line, grew 9.1% to \$2.2 billion.

Expenses increased 1.8% from a year earlier to \$2.09 billion on higher compensation costs.



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1

State Street recorded first-quarter net outflows of \$11 billion.



Arceau Petite Lune

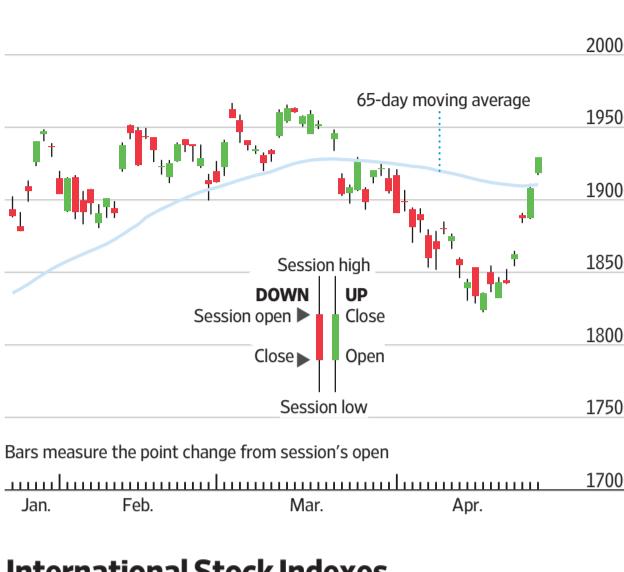
The moon watches over your days.

MARKETS DIGEST

Nikkei 225 Index

19289.43 ▲ 210.10, or 1.10%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

STOXX 600 Index

388.73 ▲ 1.82, or 0.47%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

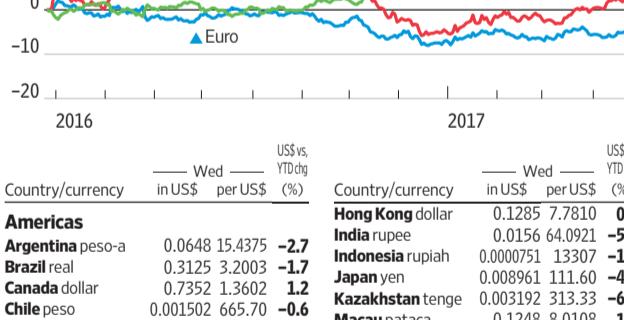
International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2740.73	3.12	▲ 0.11	2193.75	● 2745.74	8.4		
	MSCI EAFE	1837.79	1.68	▲ 0.09	1471.88	● 1956.39	7.1		
	MSCI EM USD	980.21	-2.44	-0.25	691.21	● 1044.05	23.4		
Americas	DJ Americas	576.52	0.73	▲ 0.13	480.90	● 577.99	6.7		
Brazil	Sao Paulo Bovespa	65135.52	-12.83	-0.02	48066.67	● 69487.58	8.1		
Canada	S&P/TSX Comp	15727.78	-17.41	-0.11	13535.54	● 15943.09	2.9		
Mexico	IPC All-Share	49533.99	-274.06	-0.55	43902.25	● 50147.04	8.5		
Chile	Santiago IPSA	3729.76	-16.56	-0.44	2998.64	● 3786.05	15.7		
U.S.	DJIA	21041.62	45.50	▲ 0.22	17063.08	● 21169.11	6.5		
	Nasdaq Composite	6029.11	3.62	▲ 0.06	4574.25	● 6039.28	12.0		
	S&P 500	2392.77	4.16	▲ 0.17	1991.68	● 2400.98	6.9		
	CBOE Volatility	10.77	0.01	▲ 0.09	9.97	● 26.72	-23.3		
EMEA	Stoxx Europe 600	388.73	1.82	▲ 0.47	308.75	● 388.73	7.6		
	Stoxx Europe 50	3197.65	10.89	▲ 0.34	2626.52	● 3199.61	6.2		
France	CAC 40	5287.88	10.00	▲ 0.19	3955.98	● 5296.52	8.8		
Germany	DAX	12472.80	5.76	▲ 0.05	9214.10	● 12486.29	8.6		
Israel	Tel Aviv	1410.75	7.84	▲ 0.56	1372.23	● 1490.23	-4.1		
Italy	FTSE MIB	20836.51	30.99	▲ 0.15	15017.42	● 20883.66	8.3		
Netherlands	AEX	524.46	0.41	▲ 0.08	409.23	● 526.25	8.5		
Russia	RTS Index	1119.11	-1.78	-0.16	873.58	● 1196.99	-2.9		
Spain	IBEX 35	10763.40	-19.70	-0.18	7579.80	● 10828.80	15.1		
Switzerland	Swiss Market	8830.29	55.05	▲ 0.63	7475.54	● 8837.34	7.4		
South Africa	Johannesburg All Share	53680.69	423.25	▲ 0.79	48935.90	● 54704.22	6.0		
Turkey	BIST 100	94522.34	-112.57	-0.12	70426.16	● 95038.98	21.0		
U.K.	FTSE 100	7288.72	13.08	▲ 0.18	5788.74	● 7447.00	2.0		
Asia-Pacific	DJ Asia-Pacific TSM	1569.53	3.91	▲ 0.25	1308.52	● 1574.93	10.3		
Australia	S&P/ASX 200	5912.00	40.20	▲ 0.68	5103.30	● 5934.00	4.3		
China	Shanghai Composite	3140.85	6.28	▲ 0.20	2806.91	● 3288.97	1.2		
Hong Kong	Hang Seng	24578.43	122.49	▲ 0.50	19694.33	● 24593.12	11.7		
India	S&P BSE Sensex	30133.35	190.11	▲ 0.63	25101.73	● 30133.35	13.2		
Indonesia	Jakarta Composite	5726.53	45.73	▲ 0.81	4704.22	● 5726.53	8.1		
Japan	Nikkei Stock Avg	19289.43	210.10	▲ 1.10	14952.02	● 19633.75	0.9		
Malaysia	Kuala Lumpur Composite	1768.92	3.12	▲ 0.18	1614.90	● 1768.92	7.7		
New Zealand	S&P/NZX 50	7335.13	112.19	▲ 1.55	6664.21	● 7571.11	6.6		
Pakistan	KSE100	49827.51	42.34	▲ 0.09	34269.28	● 50192.36	4.2		
Philippines	PSEI	7726.45	25.99	▲ 0.34	6563.67	● 8102.30	12.9		
Singapore	Straits Times	3173.76	9.83	▲ 0.31	2729.85	● 3187.51	10.2		
South Korea	Kospi	2207.84	10.99	▲ 0.50	1925.24	● 2207.84	9.0		
Taiwan	Weighted	9856.45	14.74	▲ 0.15	8053.69	● 9972.49	6.5		
Thailand	SET	1567.47	5.20	▲ 0.33	1381.69	● 1591.00	1.6		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs. in US\$ per US\$ (%)

Country/currency	Wed	YTD chg	Country/currency	Wed	YTD chg
Americas			Hong Kong dollar	0.1285	7.7810
Argentina peso-a	0.0648	15.4375	India rupee	0.0156	64.0921
Brazil real	0.3125	3.2003	Indonesia rupiah	0.000751	13.307
Canada dollar	0.7352	1.3602	Kazakhstan tenge	0.003192	313.33
Chile peso	0.001502	665.70	Macau pataca	0.1248	8.0108
Peru so'l	0.3076	3.2505	Malaysia ringgit-c	0.2300	4.3475
Uruguay peso-e	0.0355	28.200	New Zealand dollar	0.6879	1.4537
Venezuela bolivar	0.098799	10.12	Pakistan rupee	0.0096	104.700

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Canada dollar	0.7352	1.3602	Indonesia rupiah	0	

FINANCE & MARKETS

FINANCE WATCH

FINANCIAL TECHNOLOGY

States, U.S. Agency Spar Over Banking

State banking regulators sued a U.S. federal agency in an effort to prevent it from issuing specialty national banking licenses to financial-technology firms.

The Conference of State Bank Supervisors claim the **Office of the Comptroller of the Currency** is reaching beyond its jurisdiction with a plan to license fintech firms that make loans, take deposits or cash checks.

The SNB's foreign reserves totaled 683 billion francs in March, and include billion-dollar stakes in Apple Inc., Microsoft Corp. and Exxon Mobil Corp.

"It only invests overseas. It doesn't invest in Switzerland," said Mr. Rossellat, adding the SNB's policies have inflated asset prices abroad. "By this proposition we show the Swiss citizens that their purchasing power has been diminished."

Other central banks have some private ownership. The Bank of Italy's capital is owned mostly by the country's commercial banks. Central banks in Belgium, Greece and Japan are listed on exchanges. These shares were mostly flat in the last year, though Greece's were up some.

The **Federal Reserve's** board of governors is an independent federal agency. Commercial banks hold stakes in Fed district banks, but they aren't listed shares. The **European Central Bank** is owned by the central banks of the European Union. The Bank of England was privately owned before being nationalized in 1946.

The SNB's stock traded between 1,090 francs and 2,120 francs over the past year and rallied as Swiss interest rates turned negative even out to 2050 maturities, making the minuscule dividend seem generous by comparison.

"Investors treat the share of the SNB like a bond substitute," said UBS economist Alessandro Bee.

There is a novelty aspect too, given the small pool of shares available and the Swiss public's deep attachment to their currency. There are 100,000 SNB shares, with about 2,200 private shareholders owning 48,000 of them at the end of last year.

Net profit at the Stockholm bank rose to 4.1 billion Swedish kronor (\$468.6 million) from 4.04 billion kronor in the same period a year ago. A poll by FactSet indicated analysts expected a result of 3.70 billion kronor.

Staff costs fell 20% in the quarter compared to the same period a year ago as the number of employees fell by 251 to 11,584.

—Dominic Chopping

A Stock as Safe as Switzerland

BY BRIAN BLACKSTONE

ZURICH—Want a really, really safe asset? How about a slice of the Swiss central bank?

Shares in one of the world's few publicly traded central banks are up more than 50% in the last year. With a small, fixed dividend and limited supply, they trade more like a bond or a piece of memorabilia than a stock. This makes the **Swiss National Bank's** stock a quirky though potentially enticing alternative to zero-yielding bank deposits or negative-yielding bonds.

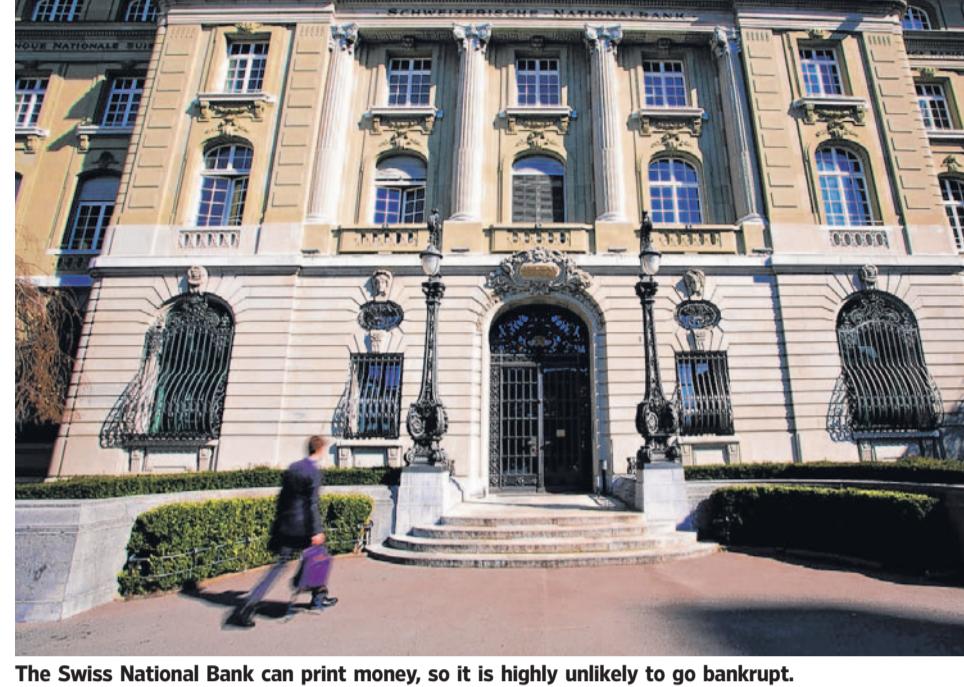
A couple of forces are at work, analysts say. For one, negative rates have increased demand for other safe assets—the existence of SNB shares wasn't even that widely known in Switzerland—while the SNB turned in a 21.3 billion franc (around \$21.5 billion) profit in the first half of 2016. Since so few shares trade, it doesn't take much to move the price.

The central bank's money-printing powers make it basically impossible to go bankrupt, and it is able to charge commercial banks to store money there.

Yet it isn't a normal bank stock. The SNB's governing board doesn't own any shares. Its biggest single shareholder isn't even Swiss; he is German.

Some shareholders are now clamoring for the first dividend increase in more than a century at the SNB's annual shareholders meeting on April 28.

Under current law, the maximum dividend is 15 francs a share for a total payout of 1.5 million francs. That is a tiny slice of the SNB's 24.5 billion franc profit last year generated by its money-printing efforts that added hundreds of billions of francs to its portfolio of foreign assets in recent years. The SNB paid 1.7 billion francs to federal and state governments, known as cantons, last year. The vast majority of the profit went to the SNB's reserve accounts.



The Swiss National Bank can print money, so it is highly unlikely to go bankrupt.

Even when it loses money, as it did in 2015, the central bank can always print more. The Swiss franc is among the strongest currencies in the world, meaning the SNB has a monopoly on a coveted commodity.

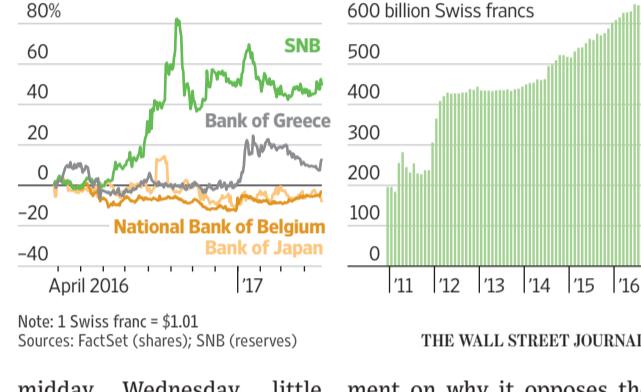
It charges commercial banks to deposit money. In short: a nice mix for any bank.

"It makes some sense to hold SNB shares," said Alexander Koch, an economist at **Raiffeisen Schweiz** and SNB shareholder. "You don't look at them like usual equities with rights for shareholders. It's more like a debt security obligation."

The bank's status as a publicly traded stock will be on display Friday when top SNB officials meet shareholders. Around 30 small shareholders, under the umbrella group Collectif AAA+, say the SNB's dividend should be calculated at 6% of the year-end share price, not the 250-franc price that has been fixed for decades. SNB shares fetched 1,750 francs on Dec. 31, implying a dividend of 105 francs a share by that calculation. They traded at 1,718 francs around

Alpine Peak

The Swiss National Bank's stock price has rallied over the past year while its money-printing efforts have turned the central bank into a major asset manager.



midday Wednesday, little changed on the day.

The SNB board opposes the measure and is certain to beat it back given tight limits on voting rights for private shareholders, which own 48% of SNB shares, but only 25% of voting shares. The rest are held by Swiss cantons. The SNB's mandate is to keep inflation under 2%, not maximize shareholder value.

The SNB declined to com-

ment on why it opposes the shareholder initiative. Even if it passes, parliament would have to change the law since rules on the dividend are set by federal law. This underscores one downside to owning SNB shares: stockholders' lack of influence over the bank.

One leader of the dividend movement, SNB shareholder Blaise Rossellat of Geneva, says he knows he won't

win, but wants to "shed some light" on the SNB's practices, which have amounted to creating hundreds of billions of francs to buy foreign stocks and bonds and weaken the Swiss franc.

The SNB's foreign reserves totaled 683 billion francs in March, and include billion-dollar stakes in Apple Inc., Microsoft Corp. and Exxon Mobil Corp.

"It only invests overseas. It doesn't invest in Switzerland," said Mr. Rossellat, adding the SNB's policies have inflated asset prices abroad. "By this proposition we show the Swiss citizens that their purchasing power has been diminished."

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There is a novelty aspect too, given the small pool of shares available and the Swiss public's deep attachment to their currency. There are 100,000 SNB shares, with about 2,200 private shareholders owning 48,000 of them at the end of last year.

HANDELSBANKEN

Lower Staff Costs Boost Net Earnings

Svenska Handelsbanken AB, one of the Nordic region's largest lenders, Tuesday posted a 2% rise in first-quarter net profit, helped by growing lending volumes and a sharp drop in staff costs.

Net profit at the Stockholm bank rose to 4.1 billion Swedish kronor (\$468.6 million) from 4.04 billion kronor in the same period a year ago. A poll by FactSet indicated analysts expected a result of 3.70 billion kronor.

Staff costs fell 20% in the quarter compared to the same period a year ago as the number of employees fell by 251 to 11,584.

—Dominic Chopping

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MARKETS

Banks Shun Bitcoin: A Blow to Exchanges

BY GREGOR STUART HUNTER
AND JULIE STEINBERG

At least three bitcoin exchanges have said in recent weeks that they can't process transactions in dollars, as global banks pull back from sectors they deem too risky.

Hong Kong-based **Bitfinex**, the largest cryptocurrency exchange by market share, last week said its customers couldn't withdraw or deposit any currencies because the Taiwanese banks that handle its transactions were blocking all requests. **OKCoin International**, the Hong Kong arm of one of China's biggest bitcoin exchanges, and **BTC-e** have warned users of disruptions in U.S.-dollar transactions.

Earlier this month, Bitfinex sued **Wells Fargo & Co.**, alleging it had refused to process some bitcoin-related transactions through the Taiwanese banks. A week later, Bitfinex withdrew the suit, acknowledging that Wells Fargo has no legal obligation to serve every

customer, Philip Potter, the exchange's chief strategy officer, said in an interview. Wells Fargo declined to comment.

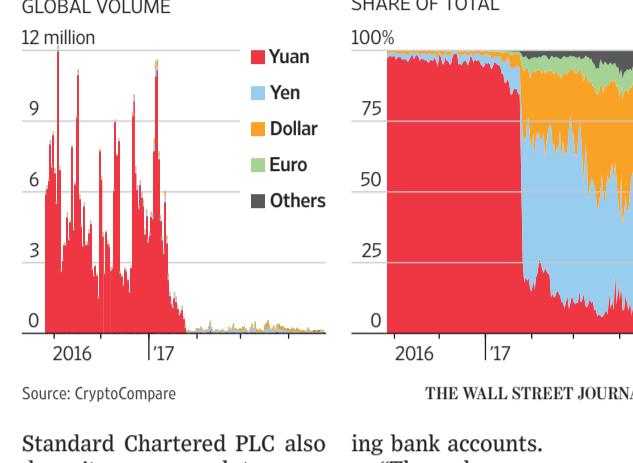
Bitcoin, a digital currency launched in 2009, runs on a decentralized network of computers and isn't backed or controlled by any government. Users purchase bitcoin with other currencies.

Many bitcoin exchanges have accounts with local banks that rely on larger "correspondent banks" to facilitate wire transfers and process transactions that involve foreign currencies. But global banks have long been wary of even indirect interactions with bitcoin exchanges, for fear of being held liable if bitcoin users are involved in illegal or shady activities, said Ross Delston, a former U.S. bank regulator and anti-money-laundering consultant.

J.P. Morgan Chase & Co. prohibits banks it transacts with from dealing with virtual-currency exchanges, according to an internal document seen by The Wall Street Journal.

Bitcoin trading has plummeted since Chinese regulators cracked down on that country's exchanges earlier this year.

Bitcoin daily trading



Source: CryptoCompare

THE WALL STREET JOURNAL.

Standard Chartered PLC also doesn't process such transactions, according to a spokesman.

To be able to transact with the wider financial system, bitcoin exchanges must play cat-and-mouse, said Bitfinex's Mr. Potter, continually switch-

ing bank accounts.

"They close one account, we open another somewhere else," Mr. Potter said. "It's a battle, but it looks like one that we appear to be losing, largely because we're the largest such exchange in the world and we've got the biggest tar-

get painted on our back."

Bitcoin is also drawing more regulatory scrutiny. The U.S. Securities and Exchange Commission last month rejected two separate proposals for bitcoin-based exchange-traded funds, saying the lack of transparency could leave investors open to fraud and manipulation. The agency this week said it would review one of the rejections. China's central bank is considering requiring bitcoin exchanges to verify a client's identity and adhere to banking regulations, the Journal reported last month.

The market value of all cryptocurrencies this month hit a record \$30 billion, two-thirds in bitcoin, according to CoinMarketCap. But trading has plummeted this year as regulatory pressure has risen in China—which accounted for 90% of volume last year, according to research site CryptoCompare. Over the past month, China's share of the total has averaged just 11.2%, the

site says.

Bitcoin exchanges barred from transacting in U.S. dollars or other currencies effectively forgo their most common function, as places to buy cryptocurrencies with money stored in the traditional financial system—though users can still convert bitcoin into other virtual currencies.

Other cryptocurrency exchanges have reported disruptions in recent weeks. OKCoin International said on its website on April 18 that it would temporarily suspend deposits in U.S. dollars because of unspecified "issues with intermediary banks."

Bitcoin exchange BTC-e, whose location isn't clear, said in a tweet on April 14 that as a result of changing its bank account, it wouldn't be able to accept dollar wire transfers until the end of the month. The exchange didn't respond to requests for comment.

—Chao Deng and Suryatapa Bhattacharya contributed to this article.

Indian Stocks Power to Record High

BY ANANT VIJAY KALA
AND RIVA GOLD

NEW DELHI—India's benchmark stock index hit a record intraday high on Wednesday, as strong domestic economic growth boosted corporate earnings across all sectors.

The S&P BSE Sensex climbed as high as 30167.09 in afternoon trading, breaking through an intraday high that had stood since 2015. The bellwether index lost some ground before closing up 0.6% at 30133.35, a new closing high. The index has been hitting record closing highs since the beginning of the month.

Rahul Shah, a vice president at Motilal Oswal Securities, said healthy corporate earnings and a strengthening in the Indian economy are driving optimism and helping attract foreign as well as domestic investors.

As long as "the [strong earnings] numbers keep coming, I don't see the markets falling," he said.

Indian stock markets have been among the best performing in the world so far this year. The Sensex has risen about 13% amid growing optimism that Prime Minister Narendra Modi will be able to leverage recent wins in local elections into policies that will help boost the economy.

That optimism has rubbed off on India's currency as well,

with the rupee gaining about 6% against the dollar this year.

Shares elsewhere in Asia, Europe and the U.S. gained ground as well. The Nikkei Stock Average gained 1.1%, rising for a fourth consecutive session, as the yen continued to move back against the dollar. A weaker yen makes it cheaper for Japanese exporters to ship their goods around the globe.

South Korea's Kospi index added 0.5% to a six-year high. Hong Kong's Hang Seng climbed 0.5%, led by gambling stocks following strong results from Wynn Macau.

A rise in bank shares lifted Australia's S&P/ASX 200 index, which rose 0.7%.

The Stoxx Europe 600 gained 0.5%. Shares of Stan-

dard Chartered closed 4% higher after its earnings jumped, while Credit Suisse Group shares gained 2.7% after the lender's first-quarter profit beat expectations.

In the U.S., stocks rose modestly as investors awaited an announcement on tax policy from the Trump administration. In early afternoon, the Dow Jones Industrial Average was up 52 points, or 0.25%, to 21050. The S&P 500 gained 0.2% and the Nasdaq Composite added 0.1%.

President Donald Trump was expected to unveil a proposal to cut taxes on U.S. companies' foreign profits and cut the top tax rate on so-called pass-through businesses to 15% from 39.6%, according to White House officials familiar

with the plan.

"If there is a reduction in corporate taxes of this sort of magnitude, that would be very beneficial for financial markets; it's a boost to corporate profitability," said Abi Oladimeji, chief investment officer at Thomas Miller Investment. "But we still need to see actual policy implemented rather than proposed," he said.

—Ese Erheriene, Michael C. Bender, Kenan Machado and Suryatapa Bhattacharya contributed to this article.



Investors are betting on Prime Minister Narendra Modi.

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—Ese Erheriene, Michael C. Bender, Kenan Machado and Suryatapa Bhattacharya contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Netflix Deal In China Is A Small Win

Netflix has finally found a way into China, its largest untapped market. Yet this is likely a Pyrrhic victory.

The video-streaming giant says it has struck a licensing deal with iQiyi, one of China's biggest video sites, to distribute its original content in the country. The site is a subsidiary of Nasdaq-listed **Baidu**, China's most popular search engine. Few details have been disclosed, although iQiyi says the first batch of shows it will stream include Netflix favorites such as "Black Mirror" and "Stranger Things." Shares in the two companies jumped on the news, with Netflix up 6% and Baidu 4% in U.S. trading Tuesday.

That reaction looks overdone, at least for Netflix. It has done well to enter a market that has been notoriously difficult for American internet firms to crack, due to its censorship regime and protectionist policies.

Still, the deal looks like a compromise for Netflix. The company said in a letter to shareholders in October that it expects revenue from any licensing deal it does in China to be "modest." Like other foreign companies that have entered the Chinese market, it has had to do so by hooking up with a Chinese partner.

When foreign shows find their way into China, they tend to prove popular. Netflix political drama "House of Cards," which has been available in China via Sohu, another website, is a smash hit. This should be good news for iQiyi. It will be getting high-quality original content to stream.

Netflix will have to console itself with the idea that it has at last made it into the market of 1.4 billion potential viewers. —Jacky Wong

An Excess of Faith at India Banks

For all the incessant optimism around India's roaring stock market and long-term potential growth, a thorny issue persists: its debt-saddled financial institutions.

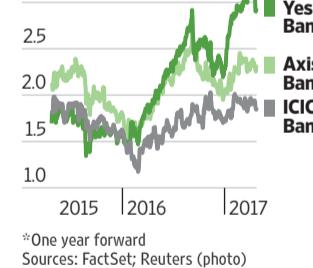
At India's large government-backed banks, a growing stock of souring loans is old news. But bad debts are creeping up too at India's better-regarded—and usually more prudent—private banks. **Yes Bank**, India's fifth-largest private lender, this week said its nonperforming loans unexpectedly doubled in the fiscal year ended in March.

India's central bank is now upping the ante: Last week it unveiled a plan requiring banks to hold more capital and enforce more stringent asset-quality levels. It also has given itself more leeway to intervene in the businesses of struggling banks by, for example, restricting dividend payouts.

All this is commendable, but won't fix the root problem. Investors have given In-

Too Much Credit

Indian private-sector banks' price-to-book values*



*One year forward

Sources: FactSet; Reuters (photo)



Bad debts doubled at Yes Bank.

dian banks credit for better disclosure of nonperforming assets and "watch lists" of loans. At times, though, troublesome loans aren't making such lists.

And it isn't just companies in sectors like infrastructure that are facing stresses. India's central bank has asked banks to review their exposure to telecom companies, where intense pricing com-

petition is eating into profit. As much as 4% of Indian private banks' lending, and 2% of public-sector banks', goes to telecom firms, according to Nomura analysts. In all, more than one-quarter of corporate debt in India is now "at risk" of not being paid back, according to the International Monetary Fund, the highest proportion among emerging markets.

Yes Bank trades at an eye-catching 2.9 times. That is a huge premium to, say, U.S. banks, which trade at an average 1.7 times their book value currently. Given the darkening backdrop, Indian banks are due a dose of pessimism.

The hangover from past soured lending is evident. Constricted banks are lending less, with credit growth in India at its lowest in more than a decade. The risk is that will create a negative feedback loop: As banks rein in fresh lending, the economy could slow, deepening the existing bad-loan problem. Not helping is Prime Minister Narendra Modi's populist agenda. Following a recent electoral victory, the government approved a loan-waiver program for 20 million farmers valued at \$6 billion, adding to the banking sector's soured debts.

All this suggests investors have placed far too much faith in Indian banks, which currently trade at 2.4 times their book value, according to FactSet. Yes Bank trades at an eye-catching 2.9 times. That is a huge premium to, say, U.S. banks, which trade at an average 1.7 times their book value currently. Given the darkening backdrop, Indian banks are due a dose of pessimism.

—Anjani Trivedi

OVERHEARD

Homeowners want to keep muggers and murders out of their neighborhoods. What about contract violators, defamers or breeders of fiduciary duty?

Journalists at the New Inquiry created a searchable database that uses machine learning to predict where in the U.S. financial crimes are most likely to occur. Unsurprisingly, financial districts of major cities are the most likely to be home to such crimes, with Manhattan being a hot spot. Within Manhattan, the Midtown neighborhood boasts a larger concentration of risk than the Wall Street neighborhood at the island's southern tip.

Smaller cities aren't immune. Greenwich and Stamford, Conn., both look risky, as do pockets of Boca Raton, Fla., and Palo Alto, Beverly Hills and Newport Beach, Calif.

Crime doesn't pay, but those are some pricey addresses.

Credit Suisse Devises a Smarter Plan to Raise Capital

Off the Peaks

Share price and index performance



Source: FactSet

fully underwritten by other investment banks.

Under Swiss regulations, the most important capital measure for banks is the leverage ratio, which measures equity as a proportion of total assets, rather than the risk-weighted asset measures that are more important for other European banks.

Credit Suisse's capital raise will lift its leverage ratio to 3.7% on the size of its balance sheet at the end of the first quarter, which is ahead of the 3.5% it needs to hit and up from 3.3% at the end of the first quarter.

Planned cuts to its bad bank this year and expected restructuring charges would put that ratio at 3.8%, which is ahead of rival UBS and in

line with **Deutsche Bank** following its recent €8 billion (\$8.7 billion) capital raise.

That appears to leave Credit Suisse with spare capital to support growth in lending to its rich private banking clients and potentially in other areas, too. However, analysts expect Swiss banks to keep a cushion over the minimum to guard against volatility in currencies or markets. Bernstein analysts think a realistic ratio to target is over 3.8%.

Credit Suisse reported a good return to profits in the first quarter, which should help mollify investors frustrated over executive pay and strategy at Friday's annual meeting. Profits were helped by a major recovery in its trading business, particularly in U.S. credit trading and securitized products, which the bank said saw a "marked improvement."

However, net interest income in its Swiss and international wealth units faltered because it used less customer money to fund its investment banking and markets divisions. That reversed a strategy that was a big boost to last year's growth.

Investors will still have questions about the stability and sustainability of its first-quarter performance as they consider the rights issue, but they should cheer the decision to abandon the alternative plan.

—Paul J. Davies