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What's News

Business & Finance

Ford's board of directors is replacing CEO Mark Fields with industry outsider Jim Hackett amid a sagging stock price. A1

◆ Huntsman and Switzerland's Clariant struck a deal to merge, creating a chemical giant worth about \$14 billion. B1

◆ OPEC is likely to extend its production cuts because it failed to drain high levels of oil in storage enough to raise prices significantly. B11

◆ Dairy farmers fear a trade squabble with Canada, jeopardizing \$150 million in sales, is a prelude to disruptions to come if Trump renegotiates Nafta. B1

◆ Arconic struck a deal to give hedge fund Elliott Management seats on its board of directors. B3

◆ Chinese e-commerce provider JD.com is developing drones capable of delivering payloads weighing a ton or more. B4

◆ Cathay Pacific Airways will lay off about 600 people as it grapples with tough competition and bad bets on oil prices. B4

◆ Citigroup and Nasdaq have been working to link Citigroup's business payments services to Nasdaq's blockchain platform. B11

World-Wide

◆ Trump met with Netanyahu in an attempt to build on two days of talks in Saudi Arabia about a regional thaw between Arabs and Israelis. A1

◆ The Middle East visit achieved a measure of foreign-policy success by shoring up U.S. alliances and distracting from the president's domestic difficulties. A3

◆ Flynn will decline to cooperate with a U.S. Senate subpoena in the investigation of alleged Russian interference in the 2016 election. A1

◆ Rouhani's re-election threatens to put the U.S. on a collision course with Europe over future policy toward Tehran. A3

◆ Kim Jong Un's call to mass produce a new missile underscores North Korea's rapid progress in building up a range of capabilities for its growing missile arsenal. A5

◆ A bomb exploded at an army-run hospital in Bangkok on a coup anniversary, wounding more than 20 people. A5

◆ The rush of young people to American cities is partly to blame for the country's worsening housing shortage. A7

Inside CEO COUNCIL: ASIA, B5

Japan's Abe Talks Trump

CONTENTS Life & Arts A9-12
Business News... B3 Markets B12
Capital Column A2 Opinion A10-11
Crossword A12 Technology B4
Finance & Mkts. B11 U.S. News A6-7
Head on Street B12 Weather A12
Journal Report B5-9 World News A2-5

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WORLD NEWS

Lessons for Trump in a Reagan Scandal



CAPITAL JOURNAL

By Gerald F. Seib

In late 1986, Ronald Reagan was overseeing a presidency in deep trouble.

Because of the Iran-Contra scandal, his job-approval ratings had plunged 16 percentage points in less than two months. His administration was under investigation by

both an independent commission and a court-appointed independent counsel, and there was serious talk of impeachment.

Yet by the time he left office two years later, Mr. Reagan had pulled out of the ditch and overseen a historic makeover of relations with the Soviet Union. He rode out of office with a robust 63% job-approval rating.

What happened? And are there any lessons in this rebound for the Trump administration as it stumbles through the inquiry into Russia's role in the 2016 presidential election?

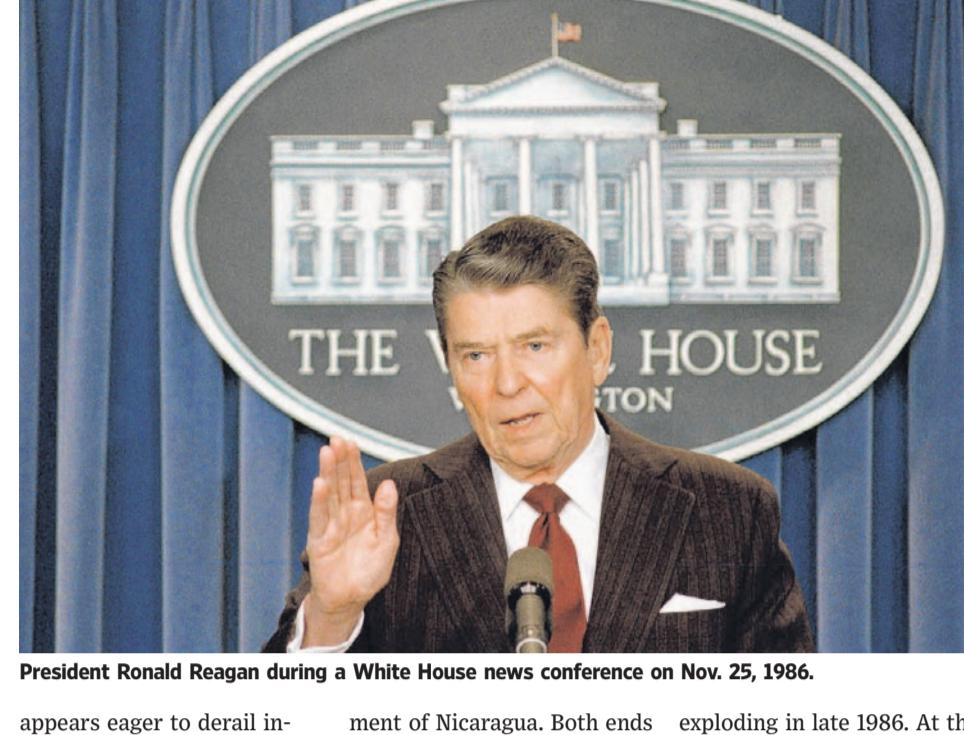
The key to Mr. Reagan's survival came in early 1987, when he launched a signifi-

cant makeover of his team, bringing in a new set of Washington pros. He adopted a disciplined approach of allowing the Iran-Contra investigations—painful though they were—to play out without interference, while focusing his own energies on achieving some modest domestic legislative victories and more significant diplomatic achievements.

Equally important, his aides and his wife convinced a reluctant president to tell the nation, not once but twice, that he accepted responsibility for the Iran-Contra problem. "We convinced Reagan—and it was worse than 10 root canals—that he had to do a mea culpa to the American people," recalls Ken Duberstein, who was among the group brought in to revive the Reagan presidency and later became White House chief of staff.

There are, of course, significant differences between the problems facing Mr. Reagan then and President Donald Trump now. The Iran-Contra scandal erupted well into Mr. Reagan's second term and involved a substantive policy disagreement with Congress, while the questions over Russia's election-year role turn on what happened during the campaign and shortly after he entered office.

The key lesson, though, may be one that Mr. Trump seems to be resisting. Whereas Mr. Trump



President Ronald Reagan during a White House news conference on Nov. 25, 1986.

appears eager to derail inquiry into the Russian question—firing FBI director James Comey amid his investigation and regularly belittling the idea that there is anything worth examining at all—Mr. Reagan came to conclude that the air would be cleared only if he allowed both Justice Department and subsequent congressional probes to play out.

"Iran-Contra" was shorthand for a covert effort by the Reagan national-security team to sell weapons to Iran, and then funnel the proceeds to arm the Contra rebels fighting the leftist govern-

ment of Nicaragua. Both ends of this transaction—selling arms to Iran and giving military assistance to the Contras—contravened prevailing laws, so the whole operation was an elaborate effort to defuse congressional intent.

Mr. Reagan, it turned out, approved the sale of arms to Iran out of a humanitarian impulse: In return for the weaponry, the Iranians helped free American hostages held in Lebanon. But he appeared to be unaware the proceeds were being used to arm Nicaraguan rebels.

Little of that was clear as word of the operation was

exploding in late 1986. At the end of November, the Reagan administration publicly acknowledged that money had gone to the Contras; fired Oliver North, the National Security Council staff member behind the operation; and appointed a special commission to examine what had happened.

But real damage control began a couple of months later, when Mr. Reagan cleaned house. He accepted the forced resignation of his White House chief of staff, Donald Regan, and replaced him with former Sen. Howard Baker. Mr. Baker, in turn,

brought along Mr. Duberstein as his deputy, and, eventually, Gen. Colin Powell as national security adviser and longtime national-security figure Frank Carlucci as defense secretary.

The new team sought to resolve the Iran-Contra questions while also separating Mr. Reagan from them. A special channel was set up in the White House counsel's office to handle Iran-Contra issues, freeing the rest of the White House to focus on the other pieces of the Reagan agenda.

The new team also convinced Mr. Reagan to stop making offhand comments about Iran-Contra, which kept the controversy swirling. Increasingly, presidential attention was focused on reshaping relations with the Soviet Union, which produced historic summit meetings with Mikhail Gorbachev and a landmark 1987 agreement on intermediate-range nuclear arms.

Along the way, congressional investigations were launched alongside the independent-counsel inquiry. Eventually a handful of Reagan aides were indicted and convicted of various transgressions—and later pardoned by President George H.W. Bush.

Mr. Reagan, though, survived, and even thrived. Whether Mr. Trump can adopt a similarly open yet disciplined approach is the question of the hour.

Ford CEO's Spat With Trump Highlighted Troubles

BY JOHN D. STOLL

troit's Big 3.

The spotlight came at a bad time for Mr. Fields because he was working to change the perception of Ford by making a slew of announcements about so-called mobility projects (such as ride hailing or car sharing) at a time when the auto maker is primarily dependent on pickups and sport-utility vehicles. The timing of Mr. Fields's Mexico announcement was seen internally as a major gaffe, reinforcing a growing perception internally that his management team struggled to connect with constituents ranging from wealthy investors to everyday Americans, according to the person.

The actions Mr. Fields took in the span between Mr. Trump's nomination as the Republican candidate for president and Inauguration Day only created more confusion, the person said, and ended up costing the company hundreds of millions of dollars in lost investment due to the cancellation of the San Luis Potosi plant.

Mr. Fields couldn't be reached to comment. A Ford spokeswoman declined to comment on management moves.

Almost as soon as he announced the Mexico strategy for outsourcing small cars, Mr.



Belt car facilities have closed. Mr. Fields fielded questions about the Mexico strategy on earnings calls and at auto shows, occasions where he would rather talk about profit growth prospects or new products and moonshot projects like autonomous cars. In December, he told The Wall Street Journal the Mexico plan was set even after Mr. Trump was elected and turned up pressure on Ford. Mr. Fields insisted it was too late to stop a construction project because small Focus sedans needed to start rolling off the line in 2018.

Then, Mr. Fields abruptly changed course, announcing the \$1.6 billion San Luis Potosi factory project would be stopped, and the small cars would be built at an existing Mexico facility. The company had earlier told Mr. Trump that it was also reversing course on sending a Lincoln product to Mexico.

The auto maker booked a \$200 million hit related to the factory cancellation, but said some of the money saved on the overall investment would be used to create hundreds of jobs in Flat Rock, Mich. Mr. Trump has since highlighted Ford as one of the companies investing in America due to political pressure he applied during and after the campaign.

longtime Boeing Co. executive recruited to run Ford in 2006. Mr. Mulally addressed the turmoil that permeated Ford's management ranks at the time, sold off business units and shored up the balance sheet.

Mr. Mulally left Ford in 2014 as the company was on a winning streak. He benefited from a revamped product line that was built while avoiding the bankruptcies that hit Detroit rivals General Motors Co. and Fiat Chrysler Automobiles NV.

Mr. Fields, a turnaround artist known for overseeing revivals in Ford's operations on several continents and within various business units, was a top lieutenant under Mr. Mulally and Bill Ford's pick as the successor.

Mr. Fields couldn't be reached for comment.

When Tesla overtook the market capitalizations of GM as well as Ford earlier in this year, it underscored how far behind Detroit is perceived to be in the race to develop new technology.

Uber, Google, Tesla and others are racing ahead with programs, including electric vehicles, ride-hailing services and the development of vehicles entirely capable of driving without human intervention.

A group of other executives will be reassigned.

Mr. Hackett is known for an easy and straightforward style reminiscent of Mr. Mulally, a



Mark Fields, above, hired Jim Hackett, his successor as CEO.

Mr. Fields had been planning to launch driverless cars early next decade, but Ford is far behind Tesla and GM on electric-car development.

Executives also have struggled to explain how Ford will make money on services other than developing, producing and selling automobiles.

Ford has posted a series of solid profits under Mr. Fields, aided by renewed demand for pickups and sport utilities that deliver higher margins and do well in an era of cheaper gasoline.

Mr. Farley, meanwhile, helped deliver more than \$1 billion in profit in Europe last year, with the favorable result

coming as GM exited that region due to persistent losses and a lack of confidence in its German Opel unit.

Mr. Fields, however, has struggled with Wall Street. Analysts and investors have routinely questioned the company's ability to weather the next industry downturn. Criticism has increased as U.S. auto plateaus and Ford's market share slides.

One of several auto-industry outsiders recruited by Mr. Fields, Mr. Hackett was installed to be instrumental in helping Ford's moves into transportation-related services.

Ford's Smart Mobility unit

has made some initial moves under Mr. Hackett's direction, hiring van-shuttle service Chariot and joining with a bike-sharing firm.

In an interview with the Journal last year, Mr. Hackett said he wasn't interested in being a chief executive again but was available to help Mr. Fields think through tough challenges.

During the interview, Mr. Hackett explained that traditional car-building consumes substantial capital and returns relatively slim margins. In so-called mobility services, he said Ford could eventually earn far more attractive margins if it hired the right software engineers and designers.

The auto maker has been projecting 20% margins in the mobility-services business, but hasn't outlined when that would be achieved. Its North American unit is Ford's most profitable, returning about 10% operating margins under the best conditions.

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WORLD NEWS

Trump's Visit Wins Saudi Support

Speech in Riyadh isn't expected to gain Mr. Trump points from other Muslims

By WILLIAM MAULDIN

WASHINGTON—President Donald Trump's visit to Saudi Arabia achieved a measure of foreign-policy success by shorting up U.S. alliances, distracting from the president's domestic difficulties, and sidestepping some of the thornier problems simmering in the region, according to lawmakers and Mideast experts.

In a speech in the Saudi Arabian capital, Mr. Trump challenged the heads of state in the region to help in "honestly confronting the crisis of Islamist extremism and the Islamist terror groups it inspires," saying terrorists should be driven "out of this earth." Mr. Trump also said "all nations of conscience must work together to isolate Iran, deny it funding for terrorism," without providing concrete details of U.S. strategy toward Tehran.

"This is someone who is making it clear that we're making common cause with those who are prepared to take on ISIS and the Iranians," said Dennis Ross, a former U.S. envoy in the region and senior fellow at the Washington Institute for Near East Policy.

Mr. Trump's messages were received warmly by the leaders in the region because their governments are some of the biggest targets for terrorism and are also under pressure from Iran, which supports militants in Iraq, Syria and Yemen.

"It is to some extent preaching at the choir," said Anthony Cordesman, strategy chair at the Center for Strategic and International Studies. "All of this sends a kind of message about American resolve and American concern for its Arab allies."

The visit served as reassurance for Saudi Arabia and allied nations after former President Barack Obama appeared to seek closer relations with Iran while negotiating a nuclear agreement with the country, and after the 2016 presidential campaign raised questions about the U.S. appetite for foreign entanglements.

Mr. Trump's decision to visit Saudi Arabia and Israel before other countries—and his warm rhetoric for their leadership—signals a shift away from Mr. Obama's policy in the region, which Mr. Trump has blamed for the turmoil there.

The trip also shows Mr. Trump appears eager to use his international authority to work with allies and court success on the global stage as he faces po-



President Donald Trump, first lady Melania Trump, Saudi King Salman bin Abdulaziz Al Saud, center, and Egyptian President Abdel Fattah Al Sisi, left, gathered around a globe Sunday at the opening of the Global Center for Combating Extremist Ideology in Riyadh.

Two Speeches Are Study in Contrasts

RIYADH, Saudi Arabia—President Donald Trump's first major speech to the Muslim world was an opportunity to formally turn the page on an approach his predecessor had outlined just months into his presidency.

Mr. Trump's speech in Riyadh and President Barack Obama's 2009 speech in the Egyptian capital Cairo differ dramatically in substance and style. Yet their goals were essentially the same.

"I've come here to Cairo to seek a new beginning between the United States and Muslims around the world, one based on mutual interest and mutual respect," Mr. Obama said in 2009.

Mr. Trump told Muslim leaders that their gathering together in Riyadh "is a symbol to the world of our shared resolve and our mutual respect" and could mark the beginning of "a new renaissance" in the Middle East.

Mr. Obama's 6,036 words-

long speech lasted an hour. Mr. Trump's, which was 3,401 words, took 34 minutes.

At the time of their speeches, both leaders were seeking warmer relations with the Muslim world, which had become strained under their predecessors for different reasons.

Mr. Obama took office facing a war-wary country. The U.S. was embroiled in an un-

popular war in Iraq, had tens of thousands of troops in Afghanistan, and America's image in the Muslim world was in tatters after the implementation of some post-9/11 policies.

"Unlike Afghanistan, Iraq was a war of choice that provoked strong differences in my country and around the world," Mr. Obama said, while Mr. Trump promised to "apply new approaches informed

by experience and judgment" to the terrorism fight.

Mr. Trump's speech came just months after he was elected president on a promise to focus on domestic concerns,

challenge the global status quo on trade and security alliances, and escalate the fight against terrorism. He spoke amid strained U.S. relations with allies in the Middle East, largely over Mr. Obama's diplomatic outreach with Iran, their archrival.

Their speeches underscore the starkly different approaches each adopted toward Iran early in their presidencies. Mr. Trump was combative, saying "Iran funds, arms, and trains terrorists, militias and other extremist groups that spread destruction and chaos across the region."

Mr. Obama offered diplomatic talks to the Iranian regime. "There will be many issues to discuss between our two countries, and we are willing to move forward without preconditions on the basis of mutual respect," he said.

—Carol E. Lee



Barack Obama addressing the Muslim world from Cairo in 2009.

political headaches back home that may hamper his domestic goals, said Aaron David Miller, a former senior State Department official now at Washington's Woodrow Wilson International Center for Scholars.

In his speech Sunday, Mr. Trump had to strike a balance between cooperation with the majority-Muslim countries and loyalty to his domestic political base, which includes supporters who backed his campaign promise to ban Muslims from entering the U.S.

"He got in and out of the

speech conundrum fairly well," Mr. Miller said. "He made a few of the right points, missed many of the bad ones, dodged the bullet on formulations of 'radical Islamic terrorism' that could be seen as terribly offending."

The speech in Riyadh isn't likely to win Mr. Trump support among Muslims. "One speech cannot outweigh years of anti-Muslim rhetoric and policy proposal," said Nihad Awad, the executive director of the Council on American-Islamic Relations, a Muslim ad-

vocacy organization.

Some of Mr. Trump's political partners also were turned off. Roger Stone, a Republican operative who was closely involved with Mr. Trump's campaign, responded to a photograph of King Salman bin Abdulaziz Al Saud placing a medal around the president's neck by writing on Twitter: "Candidly, this makes me want to puke."

Mr. Trump avoided sensitive issues of human rights, repressive regimes and official support for Muslim clerics in the region who inspire some

militant extremists. The absence of a human-rights discussion drew quick criticism from Democratic and Republican lawmakers.

"I think this is a broader element of the administration's policy, that they're going to de-emphasize issues of human rights—that what countries do within their own boundaries, we're essentially going to look the other way," said Rep. Adam Schiff (D., Calif.).

—Kate O'Keeffe

and Tamer El-Ghobashy

contributed to this article.

Europe, U.S. Face Rift Over Iran Policy

By JAY SOLOMON

WASHINGTON—The landslide re-election of Iranian President Hassan Rouhani threatens to put the Trump administration on a collision course with Europe over future policy toward Tehran.

European officials hailed the news of Mr. Rouhani's win as heralding a more moderate path for Iran over the next four years. But President Donald Trump, speaking to Muslim leaders in Saudi Arabia, sought to rally the international community behind a new campaign to push back Iran's influence in the Middle East.

Indeed, Mr. Trump signaled a significant hardening of the U.S. position toward Iran, suggesting only the removal of its theocratic leadership could stabilize the region.

"Until the Iranian regime is willing to be a partner for peace, all nations of conscience must work together to isolate Iran...and pray for the day when the Iranian people have the just and righteous government they deserve," Mr. Trump said.

Mr. Rouhani, a pragmatic Islamic cleric, secured a second term on a campaign platform to promote an Iran that is more open to the West and willing to embrace political and economic changes.

Many European governments hope he will use his next four years to moderate Tehran's overseas policies, particularly its support for Shiite militias fighting in Syria, Iraq and Yemen. Few of the U.S. president's top aides, however, believe Mr. Rouhani can deliver serious change in a political system dominated by hard-line Supreme Leader Ayatollah Ali Khamenei and its elite military unit, the Islamic Revolutionary Guard Corps.

They say Iran's regional aggression increased over the past four years, despite Mr. Rouhani's more pragmatic politics and the landmark nuclear agreement, called the Joint Comprehensive Plan of Action, or JCPOA, forged between global powers and Iran in 2015. They point to Mr. Khamenei and the IRGC as pushing these policies.

"#EU ready to continue work for full JCPOA implementation, bilat engagement, regional peace, and meet expectations of all people in #Iran," European Union foreign-policy chief, Federica Mogherini, tweeted on Saturday.

The Trump administration is currently conducting an interagency review of its overall Iran policy.

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WORLD NEWS

Israel Extends an Aid Offer

BY RORY JONES

TEL AVIV—Israel agreed to economic measures to improve the lives of Palestinians in the West Bank ahead of a visit by U.S. President Donald Trump, whose administration has pushed for such initiatives to help restart peace talks.

The measures were decided Sunday at a meeting of the government's security cabinet. They include allowing construction of Palestinian residences in the area of the West Bank under Israeli control, Prime Minister Benjamin Netanyahu's office said Monday, a controversial issue for right-wing Israelis who don't want to give up the land.

The government also agreed to smooth operation of border crossings from the West Bank into Israel; determine land that could be used for Palestinian industrial use;

and examine an extension of a train line from Israel to the Palestinian territory that could increase commerce and the flow of people between them.

The security cabinet said it would create a committee to manage the measures over a three-year period.

White House officials have said that improving the lives of Palestinians is a key policy goal, as the Trump administration looks to bring the two sides together. The president has made such concessions a key tenet of his peace platform since taking office in January.

Mr. Trump arrived in Israel on Monday afternoon for a two-day visit. He was expected to meet with Mr. Netanyahu in Jerusalem, then on Tuesday with Palestinian Authority President Mahmoud Abbas.

Palestinians expressed skepticism that the new mea-

sures would be sustained by Israel, or improve the lives of ordinary Palestinians.

Husam Zomlot, the Palestinian diplomatic representative to Washington, welcomed the Israeli moves as long as they are genuinely enacted. But he expressed skepticism that Israel would follow through with the measures given that Mr. Netanyahu won't express support for the two-state solution.

"Whenever there is an international movement towards political solution, Israel approves a set of reversible measures," Mr. Zomlot said. "If Netanyahu really wants to show goodwill, [he could] endorse a peace agenda and the two-state solution."

Israeli conservative opposition to the measures illustrates the delicate task facing Mr. Trump.

Lawmakers from the right-

wing Jewish Home party voted against the measures at the cabinet meeting, according to a person familiar with the matter.

Influential Jewish Home leader Naftali Bennett doesn't support the establishment of a Palestinian state, and has said that he will support U.S.-brokered talks only if they don't include offering concessions to Palestinians.

He has made implicit threats to pull out of Mr. Netanyahu's coalition government should the Israeli leader make overtures to Palestinians or commit to Palestinian statehood.

His party's departure from the coalition could precipitate its collapse.

Mr. Netanyahu didn't commit to a Palestinian state in a February meeting with Mr. Trump, the last time the two leaders met.



Donald Trump visited the Western Wall, a shrine holy to Jews that has become a source of discord between the U.S. and Israel.

TRUMP

Continued from Page One

Gurion Airport. "We can only get there by working together. There is no other way."

In a meeting later on Monday with Mr. Netanyahu, Mr. Trump said of Saudi leaders, "Their feeling toward Israel is really very positive," and said that relations between the two countries are being shaped by a mutual desire to counter Iranian aggression.

"It's forcing people together in a very positive way," Mr. Trump said. "I could see a much deeper path to friendship with Israel and...a lot of it's spurred on by what's happening in Iran."

Mr. Netanyahu credited Mr. Trump's hard line toward Iran with creating an atmosphere more ripe for peace.

Earlier in the day, Mr. Netanyahu also expressed hope that one day he could fly between Tel Aviv and Riyadh, as Mr. Trump had. Saudi Arabia doesn't recognize Israel's right to exist, even though it has privately worked with the country in recent years.

"The peace we seek is a genuine and durable one," Mr. Netanyahu said.

In his first overseas trip as president, Mr. Trump aims to advance his administration's goal of helping to broker a peace deal between Israelis and Palestinians after decades of conflict, and to prod Israel and its Arab neighbors to agree to new security cooperation measures in an attempt to counter Iran's influence in the region.

Mr. Trump is focusing on pressing Israelis and Palestinian leaders to negotiate in good faith. White House officials say leaders from both sides have agreed in principle to direct talks, though it is unclear if or when those would begin.

Mr. Trump met with Israeli President Reuven Rivlin and plans to have dinner with Mr. Netanyahu at the Israeli leader's residence in Jerusalem. On Tuesday, Mr. Trump will travel to the West Bank for a meeting with Palestinian Authority President Mahmoud Abbas.

Despite the hopeful words, progress on the budding rapprochement between Israel and the Arab world risks coming undone by a growing list of disagreements between Israel and the U.S. During Mr. Trump's visit to Riyadh, the U.S. and Saudi Arabia signed a new \$109 billion arms deal and agreed to commit to a further \$350 billion over a decade.

The U.S. has long committed to maintaining Israel's superior defense capabilities compared with its neighbors in the Middle East in a policy

known as "Qualitative Military Edge." The Obama administration agreed to \$3.8 billion in annual military aid last year, increasing the size of the package for a 10-year period.

Israel's energy minister Yuval Steinitz on Sunday questioned the size and scope of the Saudi deal.

"Hundreds of millions of dollars in arms deals is something we need to get an explanation for," he told Israeli media in comments confirmed by his spokeswoman. "We need to ensure Israel's qualitative military edge is maintained."

Secretary of State Rex Tillerson said that the deal wouldn't affect the long-standing U.S. commitment to Israel's security and that the threat of Iran and radical extremism is helping bring Israel closer to Arab states.

"That is unifying," Mr. Tillerson told reporters during Mr. Trump's flight. "I think it does allow countries that have had deep differences to look at the situation and realize that in many respects our threats are common to all of us."

Mr. Trump said Saudi leaders' attitude toward Israel is positive.

Mr. Tillerson said the president and other U.S. officials could address any concerns the Israeli government has about the deals.

"There has been nothing entered into with the arms sales agreements with the Kingdom of Saudi Arabia or any of the other countries that do not fully allow us to fulfill our commitments to Israel and the longstanding security arrangements we have with Israel," he said.

Ties between the U.S. and Israel under Mr. Trump, while far warmer than in recent years, have been tested since revelations this month that the president shared classified information with Russian officials that Israel had provided.

Mr. Trump has said he was "absolutely right" to share the information, and his national security adviser, H.R. McMaster, described the disclosures as "wholly appropriate." Asked about the issue on Monday, Mr. Tillerson said: "I don't know that there's anything to apologize for."

Israeli officials last week played down the impact. They said the U.S. and Israel hadn't agreed the information could be passed on, but that Israel had confidence in the intelligence relationship.



An Israeli soldier Monday fired tear gas toward protesters during clashes after a demonstration backing Palestinians in Israeli jails.

Pope Seeks Truce With Rebel Priests

Pontiff moves to bring Society of St. Pius X back into the fold

BY FRANCIS X. ROCCA

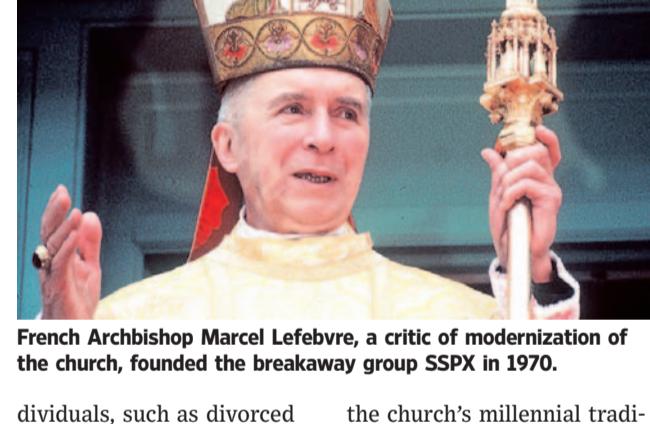
ROME—Pope Francis is edging closer to reconciliation with a breakaway traditionalist group, a possible coup for a liberal pope who could succeed where his more conservative predecessors failed.

It is the pope's Nixon-to-China moment: His credibility with progressive Catholics has given him more leeway to reach out to the other side, like President Richard Nixon's historic overture to Communist China.

But the prospect of bringing the Society of St. Pius X—known as SSPX—back into the church has alarmed some conservatives and liberals, for different reasons.

SSPX has vexed the Vatican since French Archbishop Marcel Lefebvre, a critic of the modernizing changes brought to the church by the 1962-65 Second Vatican Council, founded it in 1970.

Reconciliation would avoid a permanent schism with a group that today claims hundreds of priests and hundreds of thousands of followers. It would fit the pope's agenda of bringing marginalized groups and in-



French Archbishop Marcel Lefebvre, a critic of modernization of the church, founded the breakaway group SSPX in 1970.

dividuals, such as divorced and remarried Catholics, back into the church.

Yet it would also risk antagonizing liberals and even some conservatives who worry that legitimizing a group skeptical of the Vatican's dialogue with other faiths and opposed to modern ideas of religious freedom could undermine the progressive legacy of Vatican II and the very unity of the church.

Archbishop Lefebvre opposed the end of the Latin Mass—a move he regarded as a damaging rupture with

the church's millennial traditions—and the Vatican's more open stance to other religions. He argued that Catholicism is the only true faith and that Catholic officeholders are duty-bound to make sure it is favored by the state.

In 1988, Archbishop Lefebvre and another prelate ordained four SSPX bishops without permission from Pope John Paul II, incurring automatic excommunication for themselves and the new bishops.

Since then, all three popes

have worked to bring SSPX back. Pope Benedict XVI lifted restrictions on celebration of the Latin Mass, which had been replaced by worship in local languages in an effort to increase lay participation. Pope Benedict also lifted the excommunications of the four illicitly ordained bishops.

But SSPX leaders and members remained wary of losing their autonomy under Vatican jurisdiction and adamant about their opposition to certain tenets of Vatican II.

The rehabilitation of SSPX bishops led to an explosive controversy after one of the prelates, Bishop Richard Williamson, turned out to be a vocal Holocaust denier.

A reconciliation seemed imminent in 2012, the last full year of Pope Benedict's reign, until talks broke down.

Now, under Pope Francis, who has been more willing to overlook differences, prospects for reunification are more favorable.

"There is reason to believe the moment of full reconciliation is not far off," said Archbishop Guido Pozzo, a Vatican official assigned to deal with the SSPX.

New Bribe Allegations Shake Brazilian Meat Processor, Government

BY SAMANTHA PEARSON AND LUCIANA MAGALHÃES

SÃO PAULO—Allegations by executives at meat processor JBS SA that they paid bribes to the president and his two predecessors mark an escalation of the clash between Brazil's political establishment and its business magnates, putting the company and the government at further risk.

JBS's allegations, leaked by Brazil's O Globo newspaper on Wednesday and released by the Supreme Court on Friday, come a month after the court ordered investigations into one-third of sitting ministers following disclosures by construction giant Odebrecht SA.

Brazil's business magnates

are increasingly betraying former allies in government in plea deals in a desperate attempt to keep themselves and their families out of prison.

Executives at JBS—which is planning a U.S. initial public offering of its international unit—told prosecutors they had paid \$4.6 million to President Michel Temer in recent years and \$30 million and \$50 million, respectively, into offshore accounts held by his predecessors, Dilma Rousseff and Luiz Inácio Lula da Silva. All three have denied receiving illicit payments in exchange for state-backed funding and other favors.

In a defiant televised address on Saturday, Mr. Temer vowed he was innocent, alleging JBS doctored evidence and made

money from the latest scandal by buying \$1 billion in dollar contracts and selling the company's shares before leaking the allegations to the press. He accused the company's billionaire chairman of insider trading.

JBS denies illegal trades.

If Brazilian market regulator CVM finds JBS guilty of insider trading, prosecutors may ask for more than the \$3.4 billion they demand as part of a promised leniency deal with JBS, a person close to the negotiations said.

Luis Octavio da Motta Veiga, CVM's former head, said even if JBS is cleared, he believes the group will struggle to find new business and launch its U.S. IPO.

"I think it's unlikely that after corrupting more than 1,800

politicians they will be received with open arms in Western financial markets," he said, referring to testimony cited by local media in which JBS said it paid bribes to 1,829 politicians.

Part of the latest allegations are based on a recording that Joesley Batista, JBS chairman and part of the family that controls the beef-and-chicken empire, secretly made of a conversation he had with Mr. Temer at the president's home.

"You can count on me!" Mr. Batista can be heard saying, cozying up to the president.

Mr. Temer accused JBS of doctoring the recording and asked the Supreme Court on Saturday to suspend the corruption probe of the president, which began on Thursday, until

the audio file could be verified.

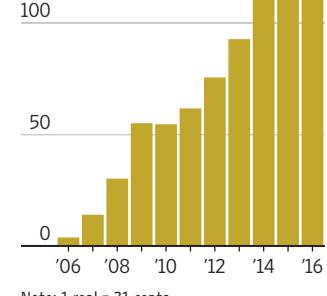
JBS has said its planned U.S. IPO is part of its global reorganization plan. This month, it said it is delaying the listing because of the company's legal troubles.

JBS has been increasingly enveloped by scandal. Aside from allegedly bribing the country's presidents, a JBS employee was accused of involvement in a scheme that emerged in March in which health inspectors were allegedly bribed to allow sales of rotten meat. JBS itself wasn't accused.

The same month, Brazil's environmental regulator accused JBS of knowingly buying cattle raised on illegally deforested land in the Amazon. JBS denied wrongdoing.

Beefing Up

Net revenue of JBS, in billions of reais



Note: 1 real = 31 cents

Source: the company

THE WALL STREET JOURNAL.

WORLD NEWS

North Korea's Tests Boost Threat

Speedy development of new missile reflects Pyongyang's mastery of key technologies

BY JONATHAN CHENG

SEOUL—North Korean leader Kim Jong Un's call to mass produce a relatively new missile it test-launched for the first time just three months ago underscores the isolated country's rapid progress in building up a range of capabilities for its growing missile arsenal.

While most U.S. policy makers remain concerned about North Korea's ability to deliver a nuclear-tipped missile to the continental U.S., the speedy development of the Pukguksong-2, or the Polaris-2, highlights how quickly North Korea is mastering other critical missile technologies that are making Pyongyang a bigger threat to the U.S. military and its allies in East Asia.

The missile, while not designed to reach beyond most of the U.S. bases in South Korea and Japan, can be fired with almost no preparation time from the back of a mobile launcher, giving North Korea more stealth in its launches, as well as the ability to retaliate in the case of a strike against it, experts say.

The North first publicly tested the Polaris-2 in February, in a successful launch of a missile that it said it had adapted from a submarine-launched ballistic missile it



North Korean leader Kim Jong Un inspects the intermediate-range ballistic missile Pukguksong-2's launch test in this undated photo.

launched last year.

It test-launched the Polaris-2 again in April, the same month it paraded the missile through the streets of central Pyongyang for the first time.

On Monday, Mr. Kim declared the Polaris-2 "very accurate" and ordered mass production of the missile for military deployment, the state-run Korean Central News Agency reported.

The head-turning progress, just three months from first public test to mass production, is a reminder of North Korea's commitment to its missile program, in defiance of international condemnation

and sanctions pressure.

"The North Koreans put their best brains on this one," said Joshua Pollack, a senior research associate at the Middlebury Institute of International Studies in Washington.

The declaration of success with the Polaris-2, which the U.S. calls the KN-15, comes just a week after North Korea launched a new missile, the Hwasong-12—which experts say is capable of flying 2,800 miles, more than enough to reach the U.S. base in Guam and farther than any weapon that North Korea has successfully fired to date. Both the Polaris-2 and Hwasong-12 are

capable of carrying nuclear warheads, North Korea said.

The Polaris-2 has a shorter range than the Hwasong-12, flying roughly 310 miles in each of its two successful launches. The Polaris-2 missile was fired on Sunday at a steeper-than-usual trajectory, and would have flown 780 miles if it were launched at a lower angle, David Wright, codirector of the Global Security Program at the Union of Concerned Scientists, wrote in an analysis of the launch.

But unlike the Hwasong-12 and the vast majority of the missiles in North Korea's arsenal, the Polaris-2 is a solid-fueled missile. Traditional liquid-fueled missiles require substantial fueling time, making them potential targets for a pre-emptive U.S. airstrike.

In contrast, solid-fueled missiles such as the Polaris-2 can be wheeled out on the back of a truck and fired with virtually no fueling time. That gives North Korea more capabilities.

If the Polaris-2 is reliable, said Daniel Pinkston, a North Korea expert and professor at Troy University in South Korea, "it gives them greater survivability since the launch preparation time is greatly reduced compared to liquid-fueled missiles."

Bomb Blast at Bangkok Hospital Injures More Than 20 on Coup Anniversary

BANGKOK—A bomb exploded at an army-run hospital in Bangkok on Monday, the third anniversary of a military coup, and authorities said more than 20 people were wounded.

Investigators found remnants of batteries and wires at the scene of the blast on the ground floor of Phramongkutklao Hospital, said Srivara Ransibrahmanakul, Thailand's deputy national police chief.

It wasn't clear who was behind the explosion or if it was linked to the anniversary of the 2014 military coup that overthrew a democratically elected government.

But the army chief, Gen. Chalermchai Sittisart, said it appeared that the explosion and two earlier blasts in recent weeks used similar explosive materials and were likely part of an attempt to disrupt the government.

"All of this was conducted with the goal of creating disorder to the administrative work of the government and NCPO," he said, referring to the National Council for Peace and Order, the official

name of the ruling junta.

But he cautioned that "we shouldn't conclude anything yet" about who was behind the attack.

The blast wounded 21 people, one of them severely, said Lt. Gen. Saroj Kiewkajee, a hospital official.

Phramongkutklao is a military-run hospital that is also open to civilians. At right, Thai soldiers secured the hospital as a patient was escorted out.

Since the 2014 coup, at least six explosions have occurred in Bangkok.

Last week, a bomb went off in front of the National Theater, wounding two people. In April, a similar explosion took place in front of an old government lottery office, also wounding two.

Those blasts used similar explosives but did far less physical damage than Monday's bomb, the army chief said.

"This bomb was meant to cause casualties as it was packed with a large number of nails," Gen. Chalermchai said.

—Associated Press



WORLD WATCH

TURKEY

Suspects Go on Trial Over Failed Coup

A trial opened near the capital Ankara for 221 suspects, including 27 former generals, accused of being the instigators of last summer's failed military coup.

The main defendants are Gen. Akin Ozturk, a former air force commander, and other alleged members of the so-called Peace at Home Council—a group on whose behalf a coup declaration was read on state television.

Other defendants include the former military aide to President Recep Tayyip Erdogan as well as the brother of a ruling-party legislator.

The suspects face life in prison if found guilty of charges that include attempting to destroy the government and the parliament, leading an armed terror group, attempting to assassinate the president and killing some 250 people, the state-run Anadolu Agency reported.

U.S.-based cleric Fethullah Gulen, wanted by Turkey for allegedly orchestrating the coup, is also named among the defendants and will be tried in absentia along with eight other defendants who are on the run. Mr. Gulen has denied any involvement in the coup attempt.

—Associated Press

AFGHANISTAN

Militants Kill Forces At Security Posts

Militants launched attacks on several southern checkpoints, killing at least 20 security forces, a provincial official said.

Gul Islam Seyal, spokesman for the provincial governor in Zabul province, said the battles began late Saturday, when dozens of Taliban fighters launched coordinated attacks on security posts in the Shah Joy district. At least 10 other security forces, including national and local police officers, were wounded, he said.

The Taliban didn't claim responsibility but they have stepped up attacks in Afghanistan since announcing their spring offensive in April.

Authorities also said a German woman and an Afghan security guard were killed and a Finnish woman kidnapped from a Kabul guesthouse.

Scott Breslin, a worker at Sweden-based organization Operation Mercy, told Swedish

news agency TT that one of its workers was missing.

—Associated Press

OECD

Developed Economies See Slower Growth

Economic growth in developed countries slowed sharply in the first three months of 2017, as the U.S., the U.K. and France experienced weak starts to a year that is widely expected to yield an acceleration of the global recovery.

The Organization for Economic Cooperation and Development said the combined economic output of its 35 members during the first quarter was 0.4% higher than in the final three

months of 2016, a slowdown from the 0.7% rate of growth recorded at the end of last year.

The slowdown underlines the still-anemic nature of the recovery from the global financial crisis and the recession that followed. The weakening of growth was largely due to the U.S., which has regularly recorded tepid first quarters over recent years.

While the U.K. and France also saw first-quarter slowdowns, they were partly offset by pickups in Germany and Japan.

The first-quarter slowdown across developed economies isn't expected to persist through the rest of 2017, with the Federal Reserve Bank of Atlanta's measure of U.S. economic growth pointing to a sharp rebound in

the second quarter, while available indicators of activity for the U.K. and France point to more modest revivals. It is therefore unlikely to affect the policy decisions of the leading central banks over coming months.

—Paul Hannon

SPAIN

Socialist Vote Points To Early Election

The country's Socialists re-elected a former party leader who had taken a hard line against conservative Prime Minister Mariano Rajoy, increasing the possibility of new parliamentary elections within the next year.

Spanish bond yields rose slightly on Monday in response. Spain's 10-year bond yield increased to 1.58% from 1.56% at Friday's market close. The spread over German paper, a measure of how risky Spain's debt is deemed to be, also increased, while spreads in other eurozone countries compared with Germany didn't move or tightened slightly, with the exception of Greece.

About half of the nearly 190,000 Socialist party members who voted in Sunday's primary cast their ballots for Pedro Sanchez, a surprise win for a man who had been ousted as party leader in October amid bitter infighting. The Socialist party in Spain, like other center-left parties in Europe, has been struggling to shake its image as an establishment party and to respond to the rise of a new far-left party that has drawn away some of its voters.

—Jeannette Neumann



Turkish police escorted Akin Ozturk, the accused leader of last year's coup plot, from prison on Monday.

China Unveils Oil-Sector Changes

BY BRIAN SPEGELE

BEIJING—Seeking to build national champions to rival the likes of Exxon Mobil Corp., China is moving to boost private investment in its vast oil companies—and may be willing to slash their work forces in the process.

China's oil and gas sector has been struggling under a combination of low energy prices and a weaker economy, sapping the sales and profit of its state-owned energy giants.

A new policy road map, unveiled late Sunday and backed by the Communist Party's Central Committee and the government's cabinet, indicated leaders are considering more-aggressive action to make state-owned companies operate more like global peers.

Market forces "should play a decisive role in resource allocation," the state-run Xinhua News Agency quoted the overhaul plan as saying.

The government offered eight general targets, including better managing oil imports and exports, upgrading refineries and boosting reserves. Details are expected in the coming months, said Lin Boqiang, who researches energy policy at Xiamen University in southeast Fujian province.

According to Xinhua's account, the newly released plan pledges to solve "problems left over from history" and allow state-owned oil-and-gas companies "to lose weight and be fit"—suggesting job reductions, Mr. Lin said.

The government is moving to boost private investment in state-owned energy firms.

Cutting oil-sector jobs, whether through layoffs, restructuring or attrition, would mark a change for China's government, which has hesitated to do that for fear of social instability.

PetroChina Co., the listed arm of China National Petroleum Corp., employs around 500,000 people—about seven times as many as Exxon, despite reporting similar revenue in 2016.

"It's the first time they talked about allowing the oil companies to really cut their force," Mr. Lin said of the government's plan.

The oil sector was an early target of an anticorruption drive led by President Xi Jinping that significantly reduced the political clout of state oil giants such as PetroChina and China Petroleum and Chemical Corp. It diminished their ability to resist opening the industry to more competition.

Changes since President Xi took over include allowing privately owned refiners to import crude oil directly, a break with the past that brought them into tighter competition with state-owned companies. That shift has rippled worldwide as foreign oil suppliers and trading houses from Russia to Europe lined up to do business with the new customers.

Under the newly released plan, the government also said it is committed to carrying out more "mixed-ownership reform" sectorwide. The government has been experimenting for several years with letting more outside investors take minority stakes in parts of state-owned industry. In one early example, China Petroleum and Chemical, known as Sinopec, sold off a nearly 30% stake in its gas-stations unit in 2014.

Yet the private stakes have generally been small, and Gordon Kwan, an oil and gas analyst at Nomura Holdings Inc., says it is too early to know whether the openings are enough to achieve the goal of boosting efficiency in the sector. Nevertheless, he said the plan sent a positive signal to investors about the government's intent.

◆ Heard on the Street: China oil giants need overhaul..... B1

U.S. NEWS

White House to Focus on Taxes, Budget

Russia investigation is a distraction as the administration tries to push its policy agenda

By PETER NICHOLAS
AND BYRON TAU

WASHINGTON—President Donald Trump is thousands of miles away, but his policy agenda faces tests at home this week as he looks to shift the focus from Russia investigations to his plans for boosting American military power and overhauling the tax code.

The White House on Tuesday will roll out a budget proposal in a blueprint that calls for large cuts to social-safety-net programs such as Medicaid and food assistance while increasing Pentagon and border-security spending.

While Mr. Trump visits Pope Francis in Rome on Wednesday, Treasury Secretary Steven Mnuchin in Washington will testify about Mr.

Trump's 2018 budget plan before the House Ways and Means Committee. The same congressional panel will hold a separate hearing devoted to a tax overhaul aimed at reducing rates and speeding job growth—a centerpiece of Mr. Trump's campaign message.

Following revelations about Mr. Trump and Russia over the past two weeks, the White House and congressional Republican leaders are eager to show that they can deliver on policy promises.

"People in the country need to know that we are busy at work trying to solve their problems," House Speaker Paul Ryan (R., Wis.) said. "So I realize that there's a lot in the media these days. That doesn't seize up Congress. That doesn't stop us from doing our jobs, to work on people's problems."

A potential danger for the Trump administration is a report coming out this week from the Congressional Budget Office. The nonpartisan CBO will release its evaluation of



DAVID PAUL MORRIS/BLOOMBERG NEWS

Former CIA Director John Brennan will testify in Moscow probe.

the health-care bill the House narrowly passed on May 4 after an intense lobbying push by the White House.

The analysis could influence the bill's fate in the Senate by giving lawmakers a fuller pic-

ture of how much the measure will cost and how many people might lose insurance coverage.

Meanwhile, the congressional machinery devoted to the Russia probe continues.

A high-profile witness will

appear before the House Intelligence Committee this week as part of the panel's investigation into alleged Russian interference in the 2016 election, including questions about whether anyone from Mr. Trump's campaign colluded with the Kremlin.

John Brennan, the former Central Intelligence Agency director under President Barack Obama, will testify publicly on Tuesday—a hearing that is expected to shed new light on how the intelligence agencies under the Obama administration decided that Russia interfered in the 2016 election.

The Senate Intelligence Committee is also preparing for a hearing with former Federal Bureau of Investigation Director James Comey after Memorial Day. The hearing is expected to be a moment of high drama, with Mr. Comey facing questions about a memo he wrote saying that Mr. Trump asked him to back off an investigation into former national security adviser

Michael Flynn.

Asked whether he had said any such thing to Mr. Comey, Mr. Trump told reporters at a news conference last week: "No. No."

Last week, the Justice Department named former FBI Director Robert Mueller as a special counsel to head the investigation arising from allegations that Russia interfered in the presidential race.

Inside the White House, Trump aides say they have been discussing ways to compartmentalize tasks so that the probe doesn't consume the building and doom various policy goals. Some veterans of past administrations believe such concerns are justified.

"We don't have a lot of weeks to spare if serious [tax] reform is going to get through," said Joshua Bolten, a former White House chief of staff under George W. Bush and chairman of the Business Roundtable, a trade group representing some of the biggest U.S. firms.

Trump Proposal Will Kick Off the Next Fiscal Fight

By RICHARD RUBIN

President Donald Trump is releasing his fiscal-2018 budget on Tuesday, the beginning of what could be a challenging, lengthy battle in Congress. Here is a guide to the budget path ahead:

What happens next?

Administration officials, including budget director Mick Mulvaney and Treasury Secretary Steven Mnuchin, will testify on Capitol Hill this week to explain and defend the plan. Congress will get to work after the Memorial Day recess.

What does Congress do first?

The House and Senate budget committees will write their own plans, known as budget resolutions. They are broad blueprints and won't necessarily detail specific agency budgets or programs that would be expanded or cut. To be adopted, the same version of the budget must get through the full House and Senate. Both chambers are controlled by Republicans.

What else is in the congressional budget resolution?

The resolution is likely to contain what are known as reconciliation instructions. Those are directions to certain committees telling them to write legislation on taxes or mandatory spending programs that don't have to be funded anew each year, such as federal employees' retirement benefits, Medicare and Medicaid. If a budget is adopted, those reconciliation bills can speed through the Senate with simple majority votes.

Why do Republicans want reconciliation instructions?

Republicans plan a major

What does the budget do for annual spending bills?

The budget sets the outline for what is known as discretionary spending for 2018, which covers national defense and programs ranging from housing to the National Institutes of Health. With the budget complete, the appropriations committees could start writing their bills. Those bills could be filibustered in the Senate, so Democrats could shape the ultimate outcome.

Is there a deadline for the budget?

Technically, the deadline

was April 15. But there is no real penalty for delay. And actually, this year, Congress has a strong incentive to wait before finishing its budget.

That is because lawmakers are still trying to complete work on the reconciliation bill allowed under the fiscal-2017 budget. That bill, which would repeal parts of the 2010 Affordable Care Act, has passed the House but not the Senate. If Congress adopts a fiscal-2018 budget before the 2017 budget, the 2017 reconciliation protections that allow a Republican-only vote would no longer apply.

FLYNN

Continued from Page One
Committee has been seeking documents from Mr. Flynn since late April, first asking for voluntary cooperation and then sending a subpoena on May 10.

The Senate now has several options to try to enforce its subpoena and assert its institutional authority to conduct oversight and investigations of the executive branch.

It could vote to hold Mr. Flynn in contempt and take the matter to civil court, or it could ask the Justice Department to consider criminal prosecution. Another rarely used procedure allows Congress to jail an uncooperative witness.

Representatives for Senate Majority Leader Mitch McConnell and Senate Intelligence Committee Chairman Richard Burr didn't respond to requests for comment.

In addition to being sought as a witness in several congressional investigations, Mr. Flynn has been under scrutiny by federal investigators for lobbying work he performed before joining Mr. Trump's administration.

Mr. Flynn was hired by a Turkish businessman on a lobbying contract. He later registered with the Justice Department under the Foreign Agent Registration Act, an acknowledgment that some of his work may have been on behalf of the Turkish government.



Congress hasn't granted Mike Flynn's request for immunity in exchange for his cooperation.

Democrats Enlist Veterans Ahead of Midterms

By REID J. EPSTEIN

WASHINGTON—Democrats now believe more congressional districts will be competitive in next year's midterm elections than once thought and they have a strategy to try to capture at least some of them: run military veterans as candidates.

Democrats must win at least a net 24 seats in 2018 to take a majority in the House. With Republican President Donald Trump less popular at this point in his term than any president in modern history, Democratic officials believe between 75 and 100 House districts will be in play then—dozens more than previous estimates.

As candidates, veterans can frame their effort as a continuation of their national service. They also allow Democrats to appeal to parts of the electorate that have fled the party in recent elections. It recalls their strategy in 2006, when they took control of the House by fielding candidates who could appeal to voters in more-conservative districts.

Already, the party is running veterans in competitive congressional districts across the country: Fifteen veterans have launched 2018 House campaigns, and 10 more may enter races by this summer, Democratic officials said.

"It is time that Democrats genuinely show that we can have a bigger tent and not just be entirely defined by the old liberal left," said Massachusetts Rep. Seth Moulton, a Marine combat veteran of the Iraq war who is leading the party's recruiting effort among veterans.

Told that Democrats believe 75 to 100 districts will be in play next year, Matt Gorman, the National Republican Congressional Committee communications director, laughed. "They are undefeated in moral victories," Mr. Gorman said.

The Democratic Congressional Campaign Committee has spoken with about 300 potential 2018 candidates, an official said, though dozens will compete against each other in primary contests.

For the first time this year, the DCCC is working with VoteVets, a liberal political-action committee with which the party's House campaign arm has often been at odds. Voter-



Sen. Tammy Duckworth is coordinating the recruitment of fellow veterans and Democrats to contest House seats in 2018.

Vets, which in the past has backed Democratic veterans in primary challenges, is now targeting competitive general election races.

"Veterans have a chance to carry districts that other Democrats won't be competitive in," said Jon Soltz, the VoteVets founder and chairman.

"They're less political and they're not career politicians and they're not Washington."

Last month, Illinois Sen. Tammy Duckworth convened a meeting with Mr. Moulton, VoteVets and the DCCC to coordinate recruiting and financial efforts.

"Ever since I first ran, peo-

ple were saying, 'We didn't know there were Democrats in the military,'" said Ms. Duckworth, who lost both of her legs in Iraq and was first elected to the House in 2012.

Of the 80 military veterans serving in the House, just 19 are Democrats, and the overall number of veterans in Congress is the lowest since before World War I, according to Seth Lynn, executive director of Veterans Campaign, a nonpartisan group that trains veterans to run for office.

"There's a real fiction in our national narrative that the Republican Party has the corner on the market on patrio-

that voted for Barack Obama in 2012 and Donald Trump last year. "It's a slightly Republican district, so people are going to have to feel that the candidate is doing this for something beyond just party for a greater purpose," Mr. Ryan said.

Mr. Ryan, who was raised in the district in Kingston, N.Y., was a sophomore at the U.S. Military Academy at West Point during the Sept. 11 attacks. He served two tours in Iraq and now lives in New York

City, where he works for a tech company. Mr. Ryan said he and his wife plan to move to the district in coming weeks.

"I've never felt a stronger calling to step up and fight than I have in the past months," he said. "The lack of trust and faith in the basic institutions of our government is growing to the point that I'm very concerned."

An aide to Mr. Faso declined to comment.

—Reid J. Epstein

Ex-Soldier Readies Challenge to GOP

Pat Ryan will run for a seat in Kingston, N.Y., his former home

In upstate New York, former Army intelligence officer Pat Ryan, a Democrat, is preparing to challenge GOP Rep. John Faso. Mr. Ryan, 35 years old, said his military background would be an asset in a district

tism," said Chrissy Houlahan, a former Air Force captain who is challenging GOP Rep. Ryan Costello in a suburban Philadelphia district that Hillary Clinton carried in November.

While the DCCC has remained neutral in primaries that don't involve incumbents, VoteVets is set this week to endorse Ms. Houlahan, along with Jason Crow against Republican Rep. Mike Coffman in Colorado. And it will endorse Doug Applegate and Josh Butler against GOP Reps. Darrell Issa and Duncan Hunter in Southern California. All the

Democrats are veterans.

City, where he works for a tech company. Mr. Ryan said he and his wife plan to move to the district in coming weeks.

"I've never felt a stronger calling to step up and fight than I have in the past months," he said. "The lack of trust and faith in the basic institutions of our government is growing to the point that I'm very concerned."

An aide to Mr. Faso declined to comment.

—Reid J. Epstein

It is by no means certain that the veterans would emerge from Democratic primaries that are expected to be crowded, which could force candidates to the left. Ms. Houlahan, like each of the four VoteVets-backed candidates, already has Democratic opposition.

"There's a renewed emphasis on ideological purity in an age when everybody gets a primary," said Ian Russell, a former DCCC political director. "With veterans, there's a decent chance they wind up being nonideological."

And for all the new energy on the political left since Mr. Trump's election, Republicans won a House special election in Kansas and remain favored to win contests in Montana on Thursday and in Georgia and South Carolina in June.

Veterans face other political challenges. Their military service often takes them far from home and the voters there. They don't come with a political base like previously elected officials. Few can tap a network of wealthy friends.

"If they've been on active duty, they may not have lived in their hometowns for 15 to 20 years," Ms. Duckworth said.

CAROLYN KASTER/ASSOCIATED PRESS

U.S. NEWS

A Century Later, Sailor Is Saluted

By SCOTT CALVERT

One of the earliest American casualties of World War I will soon have his name etched in stone at an overseas U.S. military cemetery, a century after the 20-year-old sailor's death.

Seaman Herbert Renshaw fell overboard off the coast of South Carolina during a naval patrol on May 22, 1917, weeks after the U.S. entered the war. But probably due to a clerical error by Navy officials, he was never listed on a monument to the missing at Brookwood American Cemetery in England.

'We want to make sure every American is appropriately commemorated.'

That is about to change after Robert Laplander, a Wisconsin songwriter-turned-historian, documented the omission with help from a biology professor in Maryland. The federal agency responsible for U.S. cemeteries and memorials overseas says it will correct the oversight.

"We want to make sure every American is appropriately commemorated," said Timothy Nosal, external affairs chief at the American Battle Monuments Commission. Its acting secretary last month approved engraving the seaman's name, possibly this summer.

The Brookwood chapel's interior walls are inscribed with the names of more than 560 U.S. soldiers, sailors and Coast Guardsmen lost at sea during World War I, many near the U.K. and France. Though Seaman Renshaw perished far

from European shores, he died in "outside waters" in wartime and was technically on the battlefield.

Seaman Renshaw's 70-year-old niece, Gail Renshaw Blackwell, was born 30 years after her uncle's death and didn't know there was a memorial to the missing in England. Still, she said she is grateful his name will be added. "I just really appreciate it," she said.

For Mr. Laplander, this is the biggest success yet of the Doughboy MIA project, a citizen-led effort he launched in 2015 to investigate cases of the 4,223 service members listed as missing in World War I. About half died on the battlefield, the rest were lost at sea.

While the Defense Department has a unit dedicated to accounting for missing personnel, that effort applies only to conflicts since World War II. One goal of Doughboy MIA—doughboy was a common term for troops deployed to Europe—is to put a name to soldiers buried in graves marked unknown. In the Renshaw case, it instead found that one of the missing never received his due recognition.

"It's a different kind of discovery, but we look at it as being a major victory since the job is to remember them, and here we've done it," said the 51-year-old Mr. Laplander, who lives in Waterford, Wis.

Mr. Laplander said people often ask why he does this work, given that no one alive today knew these service members.

"Why not?" he said. "This man went and lost his life in the service of the country. We bring our dead home, and the best we can hope for is to give him a named grave. If we could do that, why wouldn't we? I don't think time dulls that."

In some of the country's largest and most prosperous markets, such as New York, San Francisco, Boston and Los Angeles, housing construction has been stronger than normal in the urban core but weaker in the suburbs, where new housing can be built abundantly and more cheaply, according to an analysis set to be released Monday by BuildZoom, a website for construction contractors.

That is a problem because suburbs are typically the main drivers of housing construction.

For decades during the late-20th century, suburbs were the place to build, as urban cores suffered from high crime, poor schools and stagnant or shrinking populations.

But preferences have changed among young people, many of whom want to live closer to transit, restaurants and their workplaces. The share of young, educated people living in the urban core of Washington, D.C., for example, increased 8.6 percentage points between 2000 and 2014, according to Jed Kolko, chief economist at job-search site Indeed and senior fellow at the Terner Center for Housing Innovation at the University of California, Berkeley. Portland, Ore., and Chicago each saw increases of 6.4 percentage points.

"The expensive cities tend

to be shifting toward a paradigm that says having a better location is better than having a fresher, greener, newer place," said Issi Romem, chief economist at BuildZoom.

As builders have shifted focus toward trendier urban markets and away from cheaper suburbs, they have produced less housing overall than they otherwise might have. While starter-home construction has bounced back in recent months, it remains far from reversing this long-term trend.

At the same time, high land costs in central cities have

pushed developers to focus on higher-end housing geared toward high earners instead of younger people just starting out.

The shift helps explain one of the most vexing aspects of the housing recovery: New homes are getting more expensive and yet there are fewer of them being built than in past cycles.

While new home sales within 5 miles of the centers of 10 of the country's priciest and most densely populated metropolitan areas have surpassed levels from 2000, they remain more than 50% below

where they were in 2000 when you go more than 10 miles out. The year 2000 is often used as a benchmark for a normal market, before the boom and bust of the mid-2000s.

To be sure, the study looks only at for-sale housing. More of what tends to be produced in city centers is for rent. What's more, demand for starter homes has been bouncing back in recent months, as millennials get married, have children, and get fed up with rising rents.

The BuildZoom analysis shows that in metro areas where land is less expensive and there are fewer land-use restrictions, exurban starter homes are making a comeback.

In Austin, Texas, for example, 35.6% of new residential sales in 2015 was located more than 20 miles from the center, up from 12% in 2000. Indeed, exurban areas saw a threefold increase in new home sales between 2000 and 2015 with areas five to 20 miles from the urban core experiencing a drop.

The takeaway, Mr. Romem says, is that pricey cities need to loosen land-use restrictions in core areas where there is more demand. Allowing for more high-rise condo buildings would make it economical to produce starter homes in these areas as well.

"Do you care about preserving things the way they are, so that only wealthy people can continue buying in, or do you want to [encourage more density], so that housing is more affordable for everyone?" he asked.

U.S. WATCH

SUPREME COURT

Limits Where Patent Suits Can Be Filed Set

The Supreme Court limited the ability of patent holders to bring infringement lawsuits in courts that have plaintiff-friendly reputations, a notable decision that could provide a boost to companies that defend against patent claims.

The high court, in an opinion by Justice Clarence Thomas, ruled unanimously that a lower court has been following an incorrect legal standard for almost 30 years that made it possible for patent holders to sue companies in almost any U.S. jurisdiction.

Instead, the Supreme Court said, claims of patent infringement must be brought in the state where a corporate defendant is incorporated.

The ruling could significantly shift patent infringement lawsuits out of some federal districts, including in east Texas, which have been home to large numbers of patent cases because patent holders believed those courts provided a favorable venue for their claims.

Monday's ruling sided with TC Heartland LLC, which argued that the previous rules had spurred abusive patent litigation.

The firm had been sued for patent infringement by a subsidiary of Kraft Heinz Co.

Kraft Foods alleged TC Heartland infringed three of its pat-

ents on water-enhancer products, filing the lawsuit in a Delaware federal court, another frequent venue for patent cases. TC Heartland argued the case belonged in Indiana, where it was based.

—Brent Kendall

STATE DEPARTMENT

Firms Urge Tillerson To Protect Funds

More than 200 business leaders sent a letter to Secretary of State Rex Tillerson urging him to strongly support the State Department and U.S. Agency for International Development budget.

The letter comes a day ahead of the release of President Donald Trump's 2018 budget and follows a preliminary proposal under which the Trump administration is looking to cut up to 31% of the State Department and USAID budget.

The U.S. Global Leadership Coalition, which has helped organize other letters in support of maintaining State Department funding, assisted with putting the letter together.

The letter's signatories include top officials at Wal-Mart Stores Inc., Pfizer Inc., Coca-Cola Co., Procter & Gamble Co., DuPont Co., Dow Chemical Co. and Marriott International Inc., as well as local chambers of commerce.

—Felicia Schwartz



New developments rise in Long Island City, N.Y., in May. Housing construction in the urban core of cities has been stronger than normal.

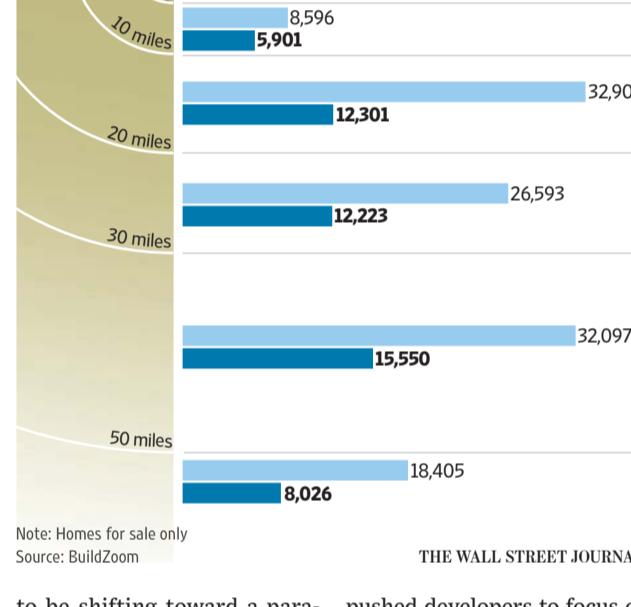
Why Millennials Are (Partly) Cited for Housing Shortage

By LAURA KUSISTO

The rush of young people to U.S. cities over the past few years is partly to blame for America's worsening housing shortage.

City Living

Housing developers are putting much more focus on urban markets and less on the suburbs and exurbs than they did in 2000.



Note: Homes for sale only

Source: BuildZoom

THE WALL STREET JOURNAL.



Seaman Herbert Renshaw in a newspaper photo from 1918.

Jury Selection Begins in Bill Cosby's Trial

By KRIS MAHER

PITTSBURGH—Jury selection in the sexual assault case of comedian Bill Cosby began Monday, hundreds of miles across Pennsylvania from where the trial is scheduled to begin in two weeks.

Judge Steven O'Neill, who will preside over the trial, is overseeing the selection of jurors at the Allegheny County Courthouse in Pittsburgh following concerns raised by Mr. Cosby's lawyers that he couldn't get a fair hearing from people in the Philadelphia area, which has been saturated with coverage of the case.

Twelve jurors and six alternates will be bused 300 miles east to Norristown, Pa., for the trial scheduled to begin June 5. Mr. Cosby, 79, was charged by the Montgomery County District Attorney with aggravated indecent assault for allegedly assaulting Andrea Constand in his Cheltenham, Pa., home outside Philadelphia in 2004.

Ms. Constand, a former Temple University employee, has said she was there to ask for career advice but that Mr. Cosby assaulted her after giving her wine and pills in order to help her relax. A civil case was settled for undisclosed terms in 2006.

Mr. Cosby has said he is in-

nocent and that any sexual contact that occurred was consensual. He faces up to 10 years in prison if convicted.

Mr. Cosby said in an interview on SiriusXM radio last week that he doesn't plan to take the stand during his trial. He declined to discuss the allegations against him and said some of his legal troubles "may very well be" the result of racism.

On Monday, the former star of 1980s hit sitcom "The Cosby Show" entered the courthouse wearing a tan sport coat and walking with the aid of a cane.

Nearly 50 women have come forward saying they were assaulted by the entertainer. He has denied the allegations, and the statutes of limitations in many cases have expired.

Mr. Cosby's lawyers sought an outside jury in a filing late last year, arguing that media coverage in New York and elsewhere had branded him a "monster" and "sexual predator" among other things.

"The pitchforks came out in full force in fall of 2014, when comic Hannibal Buress called Mr. Cosby a rapist during a stand-up show in Philadelphia," Mr. Cosby's lawyers wrote in a December 2016

court filing.

His lawyers also said prospective jurors in Montgomery County had been subjected to negative publicity about the case when it was featured in campaign ads in the 2015 election for Montgomery County district attorney.

Prosecutors didn't oppose choosing jurors from another location but they objected to shifting the trial to a new location.

They argued because "he is a celebrity who is alleged to have committed nearly 50 sexual assaults" Mr. Cosby couldn't expect to find a site where people are "completely oblivious" to the case.



Bill Cosby arrives at the Allegheny County Courthouse for jury selection in his sex-assault trial.

IN DEPTH

QUANTS

Continued from Page One

clout and money as investment firms scramble to hire mathematicians and scientists. Traditional trading strategies, such as sifting through balance sheets and talking to companies' customers, are falling down the pecking order.

"A decade ago, the brightest graduates all wanted to be traders at Wall Street investment banks, but now they're climbing over each other to get into quant funds," says Anthony Lawler, who helps run quantitative investing at GAM Holding AG. The Swiss money manager last year bought British quant firm Cantab Capital Partners for at least \$217 million to help it expand into computer-powered funds.

Guggenheim Partners LLC built what it calls a "supercomputing cluster" for \$1 million at the Lawrence Berkeley National Laboratory in California to help crunch numbers for Guggenheim's quant investment funds, says Marcos Lopez de Prado, a Guggenheim senior managing director. Electricity for the computers costs another \$1 million a year.

Algorithmic trading has been around for a long time but until recently was an overlooked presence on Wall Street. An article in The Wall Street Journal in 1974 featured quant pioneer Ed Thorp. In 1988, the Journal profiled a little-known Chicago options-trading firm that had a secret computer system. Journal reporter Scott Patterson wrote a best-selling book in 2010 about the rise of quants.

Prognosticators imagined a time when data-driven traders who live by algorithms rather than instincts would become the kings of Wall Street.

That day has arrived. In one sign of their power, quantitative investment firms are responsible for 27% of all U.S. stock trades by investors, up from 14% in 2013, according to the Tabb Group, a research firm.

Quants have almost caught up to individual investors, which collectively have 29% of all stock-trading volume.

At the end of the first quarter, quant-focused hedge funds held \$932 billion of investments, or more than 30% of all hedge-fund assets, estimates HFR Inc. In 2009, quant funds held \$408 billion, or 25%.

Quants received \$4.6 billion of net new investments in the first quarter, while the overall hedge-fund business saw withdrawals of \$5.5 billion.

Beating humans

The computers are outperforming humans at picking investments. Over the past five years, quant-focused hedge funds gained about 5.1% a year on average. The average hedge fund rose 4.3% a year in the same period.

In the first quarter, quant funds rose about 3%, compared with 2.5% for the average hedge fund.

Quants have been helped by two transformative forces. Regulatory scrutiny has made it hard for investors to obtain an edge through methods such as prodding company executives for information or tapping expert networks that included employees of public companies.

Even more important, investors now have at their fingertips an expanding ocean of data about the global economy and financial data, such as changes in earnings estimates and account receivable.

The next frontier: tapping data from drones and other cutting-edge sources to help

understand companies and the economy in real time.

Quants are different from high-frequency traders, who tend to focus on trades that might last just milliseconds. High-frequency traders have been under pressure as volatility dips and competition grows.

Exchange-traded funds also use algorithms but are geared more to investors who want exposure to certain industries or sectors.

Quantitative-driven trades can last anywhere from a few minutes to a few months. The biggest quant firms, including Renaissance, Two Sigma Investments LLC, D.E. Shaw Group, PDT Partners and TGS, make thousands of trades and manage tens of billions of dollars in investor assets.

Some analysts worry that firms and investors stampeding into the quant business might be disappointed. The most successful quants have been operating for years. And hiring Ph.D.s doesn't guarantee profits.

More competition could hurt returns and give a false sense of security about the market's stability. In 2007, what became known as the "quant melt-down" was caused largely by the similarity of strategies among quants, who simultaneously rushed to sell, causing losses at other firms and more selling.

Mathematician William Byers, who wrote the 2010 book "How Mathematicians Think," warns that rendering the world in numbers can give investors a deceptive belief that predictions churned out of computers are more reliable than they truly are. The more investors flock to complicated algorithmic models, the more likely it is some algorithms will be similar to one another, possibly fueling larger market disruptions, some analysts say.

So far, though, nothing has stopped the quant arms race, which is creating new jobs previously unheard of in the finance industry.

Citadel, of Chicago, has a chief scientist to run its analytics and quantitative strategies. In August, Balyasny Asset Management LP hired data scientist Gilbert Haddad, formerly of Schlumberger Ltd. and General Electric Co., to overhaul data and analytics at the New York hedge-fund firm. He studied nanoparticles at the University of Wisconsin and has a Ph.D. in engineering.

"You take tours of offices, and everyone is always pointing out some guy off in a corner, working on his own," says



April's meeting of the Thalesians, a group of quants, above. Marc Henrard, below, head of quantitative research at OpenGamma.

Alexandru Agachi, chief operating officer at Empiric Capital Ltd., a startup quant hedge fund in London. "They say with pride: 'Over there is our quant. He's building signals.'"

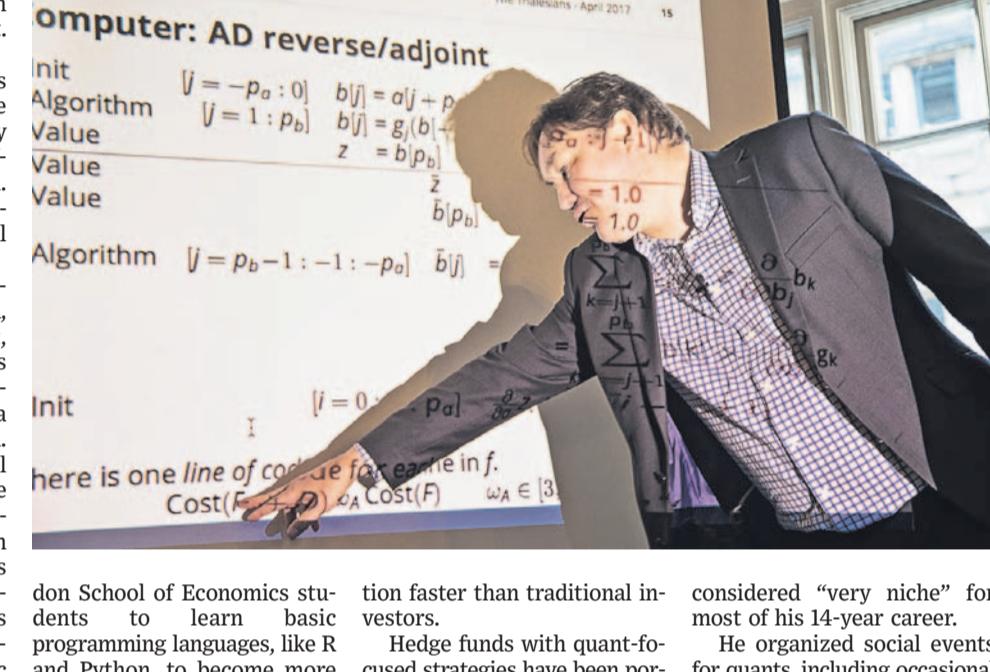
It's common for hedge funds to retool themselves to fit the latest popular strategy. Many funds dove into mortgages after the financial crisis ebbed. Some turned into "macro" investors in anticipation of global economic shifts.

Hedge-fund billionaire Steven A. Cohen's investment firm, Point72 Asset Management, with \$12 billion in assets, is shifting about half of its portfolio managers to what it calls a "man plus machine" approach.

Teams that use old-school research are working alongside data scientists. Financial analysts are taking classes to learn data-science basics. Point72 is plowing tens of millions of dollars into a group that analyzes reams of data, including credit-card receipts and foot traffic captured by apps on smartphones. The results are passed on to traders at the Stamford, Conn., investment firm.

Point72 lost money in most of its traditional trading strategies last year, say people familiar with the results. The firm's quant investors made about \$500 million.

Matthew Granade, Point72's chief market-intelligence officer, recently encouraged Lon-



IMMO KLINK FOR THE WALL STREET JOURNAL (2)

don School of Economics students to learn basic programming languages, like R and Python, to become more competitive when they graduate. Investors are shifting their preference from "artisan to engineer," he said.

Billionaire Paul Tudor Jones is one of the best-known investors in history. The former cotton trader anticipated the 1987 stock-market crash and made gigantic profits with quick bursts of trading, averaging annual gains of more than 17% since then. His hedge-fund firm, Tudor Investment Corp., barely made any money in 2014 and 2015, though.

By last year, Mr. Jones was feeling pressure from more successful quant traders, according to people close to the firm. In October, Mr. Jones chose Dario Villani, an Italian with a doctorate in theoretical physics who was hired in 2015, to help rejuvenate Tudor.

Hunkered down with a team of quants and other employees, Mr. Villani began developing computer programs to replicate trading positions of Tudor's portfolio managers using instruments that better allow the firm to increase risk to improve returns without endangering the hedge fund or Tudor, people familiar with the matter say.

Despite the changes, Tudor's two key funds were flat in 2016 as well as so far this year, even as markets have climbed.

Humans have long searched relentlessly for ways to gain an information edge. Legend has it that financier Baron Rothschild built a network of field agents and carrier pigeons in 1815 that may have given him a jump on the Battle of Waterloo outcome. Today's quants hope to digest—and act on—informa-

tion faster than traditional investors.

Hedge funds with quant-focused strategies have been poring over private Chinese and Russian consumer surveys, illicit pharmaceutical sales on the dark web—a network of websites used by hackers and others to anonymously share information—and hotel bookings by U.S. travelers, according to Quandl Inc., a platform for such data.

In the late 1990s, an algorithm might have simply tried to ride the momentum of a stock's price rise, buying at a certain price level and selling at a predetermined moment. Today's algorithms can make continuous predictions based on analysis of past and present data while hundreds of real-time inputs bombard the computers with various signals.

Machine learning

Some investment firms are pushing into machine learning, which allows computers to analyze data and come up with their own algorithms. Those machines no longer rely on humans to write the formulas.

Algorithms and quants eventually could sharply reduce the need for large investment staffs. A machine-driven algorithm might help quantitative researchers discover dozens of new algorithms in the time it used to take to create one.

In the battle for talent, quant-focused firms often are reluctant to call themselves hedge funds. Quant firms would rather emphasize their similarities to companies in Silicon Valley.

Saeed Amen, a quantitative researcher in London, says his investment strategies were

considered "very niche" for most of his 14-year career.

He organized social events for quants, including occasional gatherings of a group called the Thalesians after ancient Greek geometer Thales of Miletus. The beer and conversation sometimes attracted fewer than a dozen people.

Mr. Amen's phone has started ringing with calls from hedge-fund managers in the U.S. and Europe. They don't all want automated investing algorithms, but they are trying to figure out how to make better predictions, he says.

Much of that push is coming from investors such as Pepperdine University in Malibu, Calif. Last year, the college placed about 10% of its \$750 million portfolio in big quant funds, including those run by Man Group PLC of London and AQR Capital Management LLC, Greenwich, Conn.

Until then, Pepperdine had "essentially zero" quant investments, says Michael Nicks, its director of investments. "The narrative of fundamental investing is much more comfortable to digest," he says. "Finding a company with good prospects makes sense, since we look for undervalued things in our daily lives, but quant strategies have nothing to do with our lives."

After "years and years of self-education" and dozens of meetings with quant managers, says Mr. Nicks, Pepperdine decided it was ready to make the leap.

—Rob Copeland
contributed to this article.

ONLINE

Read more of our series on the rise of quants at wsj.com/markets

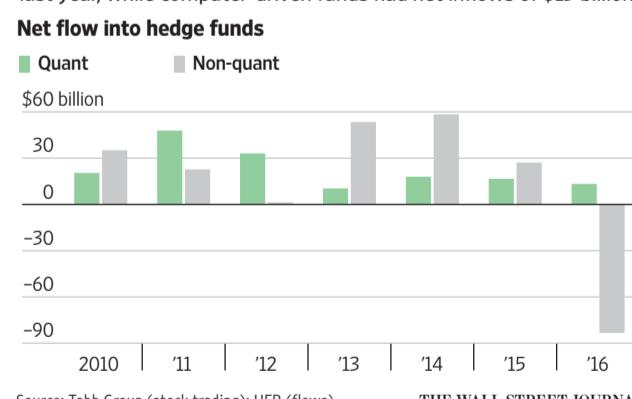
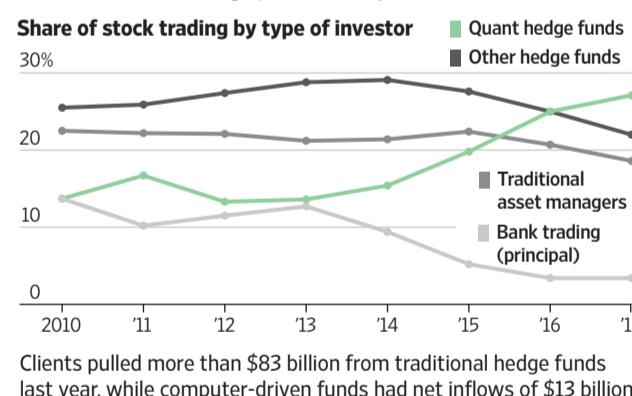
guest on popular Chinese variety-TV shows.

A live-streaming event held this month by Alibaba Group Holding Ltd. to promote its shopping festival featured Xiaoman eating a bowl of fish, tomato and green pepper with a blue Pampers crown perched atop her head.

"Xiaoman is eating so well," gushed the announcer. "If she were my daughter, I'd give her a sticker or a flower as a prize!"

Forks and bowls playing on her celebrity status are sold online but weren't approved by Xiaoman's parents, her mother says.

It's a lot to stomach. Ms. Duan says she isn't seeking to profit from her toddler daughter's fame. Besides, the way online fame comes and goes, "I don't think she's going to be famous for long," the mom says.



Source: Tabb Group (stock trading); HFR (flows)

wishing their children were less picky. Others worry about the dangers of overindulgence.

The toddler's mother, Duan Yu, a makeup artist in Beijing, says she didn't set out to make Xiaoman famous. Ms. Duan started posting the eating videos a year ago to document her daughter's life, just like any proud parent would, she says. The mother stays off camera.

Other parents soon sought her advice about how to prepare the same foods that Xiaoman eats and how to get their kids to eat vegetables. Ms. Duan says the trick is: Don't let them eat too many snacks.

Ms. Duan says she is no food expert and reads lots of parenting blogs. Instead of spoon-feeding, which is common in China and elsewhere in Asia, Ms. Duan simply gives Xiaoman utensils so she can feed herself.

At mealtimes, Xiaoman usually gets three large spoons of rice along with a serving of meat or fish and vegetables. There are no second helpings, no matter how much Xiaoman cries, her mother says.

One video shows Xiaoman at a restaurant feasting on an Indonesian salad of vegetables, eggs, tofu and potatoes drenched in peanut sauce. She doesn't look up when two fans come up behind her to take selfies, even when one drapes her hand on the toddler's shoulder.

Some viewers wrote that Xiaoman's food bowls look larger than her head and that she eats too much. Ms. Duan says the portion sizes are normal for her daughter's age. She made a video of Xiaoman's visit to the doctor to show the toddler is healthy.

The amount of food "looks

big in the video, but it is very little," says Ms. Duan. "The lens is a wide lens."

As China's fascination with Xiaoman has grown, so have her opportunities. She has an agent, Candy Chan, a director at Modicon.

Saeed Amen, a quantitative researcher in London, says his investment strategies were

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As China's fascination with Xiaoman has grown, so have her opportunities. She has an agent, Candy Chan, a director at Modicon.

Online, some parents praise Xiaoman for her vigorous appreciation of food.

els International, who also represents Hong Kong supermodel Qi Qi.

Xiaoman just had a starring role in an online advertisement in China for Pampers diapers, made by U.S. company Procter & Gamble Co., and has been a

Continued from Page One

views. She licks the juice off her fingers, reaches out her arms and cries "More durian!"

In China, about 800 million people carry a smartphone. A lot of them are fascinated by watching other Chinese eat.

An eating channel launched last year by Meipai, an app that hosts Xiaoman's videos, has received more than 12 billion views. Competitive eater Mizijun gobble down everything from pig feet to cream cakes.

It's the Chinese version of "mokbang" or "eating broadcast," which gained popularity in South Korea a few years ago with streaming late-night chowdowns shown live.

"There's a spiritual satisfac-

LIFE & ARTS

FITNESS

Five Small Steps To Keep Sweating

BY RACHEL BACHMAN

Many of us vow to get to the gym—then life intervenes. But 21% of U.S. adults do manage to get enough exercise, and these people have some common traits and habits.

They are consistent but not rigid. They have open minds about what defines “exercise.” And they have different motivations than the weary conscripts who enroll at the gym on New Year’s Day.

Here are habits of those who exercise frequently that just might help the rest of us:



They work out at the same time most days.

A study published in April in the British Journal of Health Psychology examined 181 people who exercised an average of 300 minutes a week—twice the federally recommended minimum.

Most of those people picked a regular time to work out and stuck with it.

"When things become predictable you don't

need to invest in much thought," says the study's lead author, Navin Kaushal, a postdoctoral fellow in preventive medicine at the Montreal Heart Institute, University of Montreal.

Putting yourself in a certain environment at a certain time every day "brings up a mental script of the behaviors and you go into autopilot."

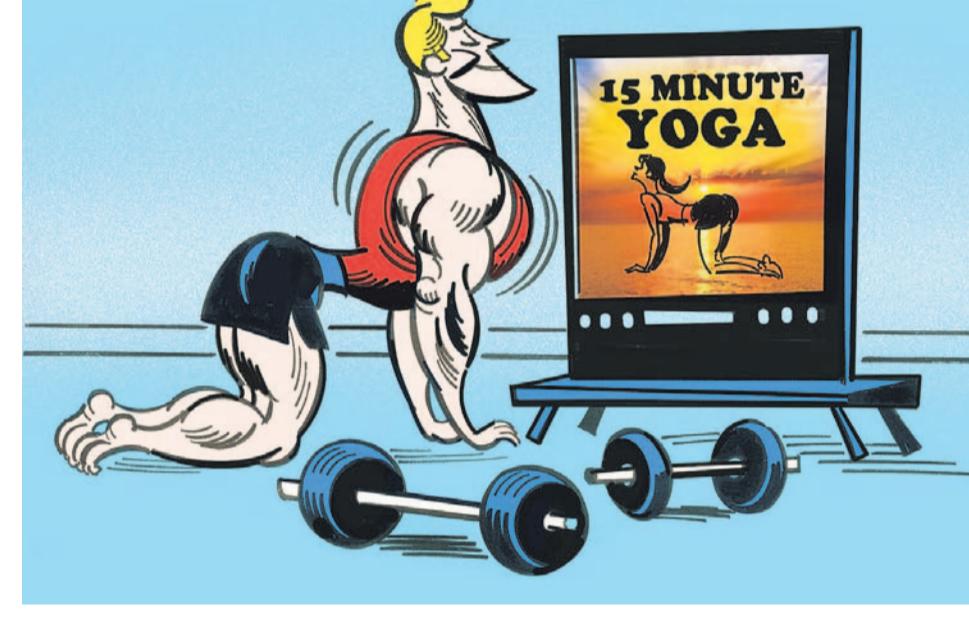


They have a streamlined pre-exercise routine with visual cues.

In another study published in 2017 and led by Dr. Kaushal, new gym members were asked to create cues to prompt them to exercise. A cue might be laying out running clothes, shoes and headphones on

a dresser. The plan is that when a runner wakes up, he sees the cues, dresses and dashes out the door.

After eight weeks, members of the study's experimental group were 1.7 times more likely to meet physical-activity guidelines than those in a control group.



They're more flexible than infrequent exercisers about how long or vigorously they exercise.

Active people are less likely to have all-or-nothing definitions of physical activity, according to a study soon to be published in BMC Public Health. The study looked at 40 women, 11 of whom said they exercised at least three times or two hours a week.

"The old-school belief was, you set a goal, it's a bull's-eye. You hit it or you miss it," says the

study's lead author, Michelle Segar, director of the University of Michigan's Sport, Health, and Activity Research and Policy Center. "But life is messy. When you're more flexible, you're able to shift your position, your stance, do something less. It removes the psychological punishment of 'Oh, I failed!'"

If a frequent exerciser's workday spills into her hourlong spin class, for instance, she might still hit the gym to pedal 20 minutes on her own.

They're more likely to exercise for pleasure than for weight loss or other long-term health goals.

A study published in 2016 in the Journal of Consumer Research recruited 61 gymgoers at a University of Chicago weight room. Researchers randomly sorted them into two groups and gave each group six exercise options, such as biceps curls or dead lifts.

People in one group were told to choose the exercise they most enjoyed, while the people in the other group were told to choose the exercise most useful for their health goals. Both groups were instructed to do as many sets of their selected exercise as they could.

People who chose an exercise for enjoyment completed an average of 29 reps, compared with 19 reps for those who chose the exercise they thought would help them with health goals. That was true even though the

two groups chose similar exercises with similar amounts of weight.

"If I really care about having a healthy heart, that's what gets me to the gym," says Kaitlin Woolley, the study's lead author and a Ph.D. candidate at the Booth School of Business at the University of Chicago. "But that's not what keeps me there."



An increasing number of active people are widening their definition of exercise.

Many people think exercise has to last at least 30 minutes and make you sweaty and exhausted. Dr. Segar's ongoing research suggests that frequent exercisers increasingly view things like walking meetings and family bike rides as things that "count" as exercise.

Steve Rabinowitz, a 41-year-old government analyst in Greenbelt, Md., has been working out about five days a week since he turned 40. He mostly does high-intensity interval training work-

outs using a free site called Fitness Blender, but recently tried Pilates and ballet-inspired barre workouts and enjoys them.

"I push myself when I feel like I can, but when I can't, that's OK too," he says. "I really try to listen to my body."

During a recent work training he attended, Mr. Rabinowitz climbed five floors of stairs to a meeting room eight times over two days—sometimes sprinting, sometimes walking. He says he enjoys exercise more since he's expanded his options.

rial signature can be transferred onto the bill and feast on residual oils from sticky fingers.

A recent study found more than 3,000 types of bacteria on bills in circulation, though the epidemiologist says most of what was found is part of our world's bacterial ecosystem. "We carry so much bacteria, we are used to fighting them," Dr. Martin says. Problems arise, she says, "when bacteria get into places they shouldn't."

Tiny Little Bugs

Among the critters found are the germs that cause acne. Typically the skin cells a person sheds onto inanimate objects are laced with bugs, but with little nutritional value in a dollar bill, they can only survive a couple of days on deposited skin scales and oil, Dr. Martin says.

"The bacteria you'll find on a bill is more reflective of the last

person who touched it than everyone who ever touched it," she says. One slightly concerning bug found on dollar bills is *Acinetobacter baumannii*, which can lead to pneumonia or meningitis, but it's mostly a cause for concern in hospital settings.

"Typically the numbers of bacteria found on a bill aren't large enough to cause infection, and these aren't necessarily the same strains that are resistant to antibiotics anyway," Dr. Martin says. Plus, "our skin is an excellent barrier." Healthy people shouldn't worry about their dirty money causing disease, she says, unless the skin is broken.

'Don't Lick the Bill'

People whose immune systems are compromised due to chemotherapy or other illnesses should take some precautions when thumbing a stack of worn \$20 bills.

"You shouldn't touch anything that's handled often and then touch an open wound or put your hand in your mouth," Dr. Martin says. Washing hands frequently with soap and water should get rid of any residual germs—or other substances, like cocaine, which has been found on money in many studies—that may hitchhike on bills.

Dr. Martin runs a lab and is surrounded by germs all day. She doesn't give a second thought to who is riding the coattails of Abe, Andrew or Benjamin. "I'd worry more about what flu virus is being sneezed in your direction," she says. Still, she cautions, money doesn't belong everywhere. "Please don't lick the bill or put it up your nose," which is a breeding ground of microbes, she says.



BURNING QUESTION

CAN HANDLING MONEY SPREAD GERMS?

BY HEIDI MITCHELL

MONEY LAUNDERING is typically meant to describe the process of scrubbing funds of their origin. That term could also be applied to the literal cleaning of Benjamins. According to a recent study, bacteria of many forms cling to dollar bills. One expert, Emily Martin, an assistant professor of epidemiology at the University of Michigan School of Public Health, explains which bugs may be money-hungry and when it's worth worrying about critters in the ATM.

A Pathway for Pathogens

American paper money is made from a blend of linen and cotton, which makes notes porous, with "lots of nooks and crannies for things to get stuck in," says Dr. Martin. As dollars move from person to person, each owner's bacte-

OPINION

REVIEW & OUTLOOK

Trump's Middle East Reset

President Trump visited Saudi Arabia on his first trip abroad this weekend even as Iran re-elected Hassan Rouhani in a sham presidential vote. The timing may have been coincidental but the symbolism is potent. Mr. Trump is reviving the traditional U.S. alliance with the Sunni Arab states even as Tehran reaffirms its intentions to dominate the Middle East.

The timing comes full circle from the start of Barack Obama's eight-year tilt toward Iran. That tilt began with Mr. Obama's silence as Iranian leaders stole the 2009 presidential election while arresting and killing democratic protesters. He then spent two terms courting Iran in pursuit of his nuclear deal while downgrading relations with the Gulf Arabs, Israel and Egypt. Mr. Trump's weekend meetings and Sunday speech show he is reversing that tilt as he tries to revive U.S. alliances and credibility in the Middle East.

Friday's vote in Iran was more coronation than re-election. The unelected Guardian Council of mullahs disqualified more than 1,600 candidates. The remaining six represented the narrow ideological spectrum approved by Supreme Leader Ali Khamenei and the Revolutionary Guards. That includes Mr. Rouhani, who is often called a moderate in the West but has presided over continuing domestic repression and regional aggression.

Mr. Rouhani will probably honor the broad terms of the 2015 nuclear deal, not least because it has provided the mullahs a much-needed financial reprieve from sanctions. The regime is likely to exploit the accord at the margins, however, including ballistic-missile launches and technical progress in secret that could allow a nuclear breakout when most of the accord's major restrictions sunset in eight to 13 years.

Contrary to Mr. Obama's hopes, there is no evidence that the nuclear deal has changed Iran's hostility to the U.S. or its designs for regional dominance. The Revolutionary Guards continue to support Bashar Assad's marauding in Syria, Shiite militias in Iraq, the Lebanese terror group Hezbollah, and Houthis in Yemen. Tehran sees the Gulf states as a collection of illegitimate Sunni potentates who must bow before Shiite-Persian power—and the U.S. as the only power that can stop its ambitions.

This is the strategic backdrop for Mr. Trump's visit to Riyadh, which was remarkable for the public display of support for the U.S. alliance. The Saudis have long preferred to cooperate with the

His visit revives the U.S.-Saudi alliance and sends a message to Iran.

U.S. in more low-key fashion. But they laid on a summit of regional Arab leaders, announced substantial (\$110 billion) new arms purchases and investment in the U.S., and offered Mr. Trump the chance to deliver his first speech as President on U.S. relations with the Muslim world.

The two countries also issued a public "joint strategic vision declaration" that called for "a robust, integrated regional security architecture." The test of this vision will come in places like Syria and Yemen, but one early sign was the weekend launch of Saudi Arabia's new Global Center for Combating Extremist Ideology. This is a welcome development in the heart of Wahhabi Islam that nurtured Osama bin Laden and other jihadists.

Mr. Trump's speech on Sunday was notable for its conciliatory tone, calling for a "partnership" with moderate Muslim states. The arch rhetoric of his campaign was gone as he invoked the shared desire of Muslims, Christians and Jews to live without fear of religiously motivated violence.

He was also blunt in addressing Iran as "a government that speaks openly of mass murder, vowing the destruction of Israel, death to America, and ruin for many leaders and nations in this room." Until Iran's regime "is willing to be a partner for peace," he added, "all nations of conscience must work together to isolate Iran, deny it funding for terrorism, and pray for the day when the Iranian people have the just and righteous government they deserve."

* * *

All of this will reassure the Gulf Arabs and other U.S. allies who questioned America's commitment during the Obama years of retreat. The Saudis are imperfect allies, but they are linchpins of the U.S.-led order in the Middle East, and their assistance is essential to defeating Islamic State in Syria.

In 31-year-old Deputy Crown Prince Mohammad bin Salman, Saudi Arabia also finally has a serious modernizer who wants to diversify the economy from oil, expand the public space of women and ease other cultural strictures. The U.S. has a stake in his success and in particular should help him prevail as soon as possible against the Houthis in Yemen.

The eight-year decline of U.S. credibility in the Middle East can't be reversed in a single summit, but Mr. Trump's weekend in Riyadh is a promising start that will be noticed from Tehran to Damascus to Moscow.

China's Hero Lawyers

China's crackdown on human-rights lawyers is revealing details of how the regime uses torture to force confessions from political prisoners. This month a court in Changsha staged a show trial of a lawyer who earlier this year released an account of mistreatment in prison. Another lawyer was released after being abused and tried in secret in Tianjin.

In Changsha, Xie Yang pleaded guilty to subversion and retracted allegations he made in January through his lawyers that he had been beaten, deprived of sleep and held in stress positions. In a statement read to the court, he said he had been "brainwashed" by foreign agents. "Everyone should take me as a lesson: You must behave within the boundaries of the law, avoid being used by anti-China Western forces," the lawyer said. He made a similar confession on state-run television.

In Mr. Xie's January statements, he anticipated this outcome: "If, one day in the future, I do confess, whether in writing or on camera or on tape, that will not be the true expression of my own mind. It may be because I've been subjected to prolonged torture, or because I've been offered the chance to be released on bail." Writing or recording pre-emptive disavowals of forced confessions has become common among Chinese lawyers.

Mr. Xie's lawyer, Chen Jiangang, was detained to prevent him from attending the trial. Afterward he told the Journal, "This wasn't a trial, it was a transaction." He said government officials had struck a deal in which Mr. Xie would be released and keep his law license if he confessed. Last week Beijing police pre-

vented Mr. Chen's son from enrolling in primary school.

Mr. Xie's wife also condemned the trial as a sham. Chen Guiqiu was prevented from seeing her husband since his arrest in 2015. She and the couple's children fled to Thailand in February, where they were detained. According to the Associated

Press, U.S. diplomats managed to secure their release in March. After a tense airport confrontation with Chinese officials who wanted to take them back to China, they flew to Texas and are applying for asylum.

In the Tianjin case, lawyer Li Heping was released this month after a secret trial handed down a three-year suspended jail term for subversion. He was accused of defaming the government in interviews with foreign media, as well as conspiring with religious workers and others seeking to overthrow the government. Like Mr. Xie, his guilty plea led to a more lenient sentence.

Mr. Li's frail and emaciated appearance shocked his family and colleagues. He lost a significant amount of weight in prison and his hair turned gray. According to his wife Wang Qiaoling, Mr. Li was force-fed medicine that made his vision blurry and his hands were shackled to his legs 24-hours a day for a month. Like Mr. Xie, Mr. Li was prevented from having his lawyer represent him in court and was barred from seeing his family.

The Chinese government breaks its own laws when it mistreats prisoners and fails to follow due process. Despite knowing they will suffer further abuse, scores of lawyers like Messrs. Xie and Li bravely continue to expose Beijing's flouting of the rule of law. Their sacrifices deserve to be honored,

Los Angeles Charter Uprising

One reason public schools in big cities are so lousy is union control of local school boards. This has long been true in Los Angeles, but last week charter-school advocates dealt a major blow to the failing status quo by winning a majority on the district's Board of Education.

The Los Angeles Unified School District has some of the country's lowest-performing public schools. In 2015 only one in five fourth-graders rated proficient on the National Assessment of Educational Progress. While Los Angeles boasts more charter schools than any district in the country, they still account for merely 16% of enrollment. Two years ago the Great Public Schools Now initiative, which is backed by the Eli and Edythe Broad Foundation, set a goal of enrolling 50% of the district's students in charters. The unions naturally went nuts.

As union schools lose students (and thus taxpayer funds) to charters, the school board has become even more reactionary. Last month the board voted to support three bills before the

state legislature in Sacramento that aim to limit autonomy for charter schools. One would prevent charters from appealing rejections by local school boards to county and state boards. The appeals process is one reason charters in Los Angeles have been able to expand despite school-board resistance.

Anti-charter board members have tried to convince parents that rising graduation rates show that traditional public schools are improving. But the real explanation is that the board dumbed down graduation requirements and allowed students to pass courses with a D grade. Half of last year's graduating seniors were ineligible for state public universities, according to the education nonprofit The 74.

Unions tried to vilify pro-charter candidates Nick Melvoin and Kelly Gonez by portraying them as tools of Donald Trump, though both were endorsed by President Obama's Education Secretary Arne Duncan and the state's progressive former Senator Barbara Boxer. There's nothing progressive about failing low-income minority kids.

Venezuela on the Verge of Civil War



AMERICAS
By Mary Anastasia O'Grady

Venezuelan strongman Nicolás Maduro is responding to mass demonstrations by selectively killing civilians. If, as a result, some branch of the military breaks with the regime, the country will descend into civil war. But until then it's a one-sided slaughter.

It's also a Cuban proxy war. More than a dozen high-ranking Cuban officers are said to be in Venezuela, along with thousands of Cuban intelligence agents. Their job is to keep Venezuelan army officers under constant surveillance to prevent the feared military uprising to restore democracy. If the international community wants to head off disaster, a good place to start would be Havana.

On Thursday Miami's El Nuevo Herald reported it has a recording of Venezuelan generals—at a meeting in Barquisimeto three weeks ago—"giving orders to use snipers to control demonstrators." According to the Herald they did so "with the argument that they find themselves on the threshold of a civil war."

Maybe the generals know something not yet acknowledged publicly—that the commitment to Mr. Maduro among the nation's soldiers and police is breaking down.

It happened once before, in April 2002, when snipers backing the regime picked off protesters during a demonstration in Caracas. When some members of the army refused to help then-President Hugo Chávez crack down on the crowd, he was forced to step aside, albeit temporarily.

Once back in power, Chávez accelerated the recruitment and arming of paramilitaries. Thousands now show up at antigovernment protests, firing weapons into crowds and using their motorcycles to run down demonstrators. If the Cubans remain the power behind the throne, there will be no one to stop these trained killers from slit-tongue the throats of the opposition.

The possibility of a break inside the armed forces seems to be on the rise. As the Journal's Anatoly Kurmanayev reported on Wednesday, National Guard riot police are worn down from taking on thousands of street protesters almost daily since the beginning of April. Rank-and-file soldiers also are not immune to the hardship and hunger caused by Mr. Maduro's senseless economic policies. They say they too are underpaid and underfed.

The dictatorship is clearly worried about this and recognizes it will lose a war of attrition. One source in Caracas who marched in the streets Thursday observed a noted increase in regime repression.

In recent weeks government enforcers also have launched attacks on lower middle-class neighborhoods where Maduro critics live. They break down

gates and doors, rampage through apartment complexes, fire tear-gas canisters through windows and loot homes.

On May 7 the Venezuelan newspaper El Nacional reported that between April 4 and May 5 the National Guard, together with National Bolivarian Police and *chavista* militia, invaded 11 different residential areas in Caracas. One family of four in the El Paraíso district, requesting anonymity, told of how they cowered together in a bathroom for eight hours to keep from being asphyxiated by the tear gas that had inundated the rest of their apartment.

It wasn't the first blitz on the building complex known as Terrazas del Paraíso. On April 19 pro-government thugs smashed an iron grille to get in and rob one of the neighbors. On April 26 civilian-clothed militia entered the complex and fired rubber bullets, injuring some residents. "But it was to frighten us, because they didn't steal anything," one of the victims told the newspaper.

The commitment to Maduro among soldiers and police is breaking down while Cuba continues to call the shots.

On May 11 El Nacional reported that since this most recent wave of protests began, state security forces and paramilitary have engaged in similar violence and theft against 13 condominiums in six cities including Maracay, Valencia, Barquisimeto and Mérida. Forty-seven people have been killed in the violence perpetrated by the antiriot squads and paramilitary madmen since early April.

This is state terrorism. But it may not have its intended effect. Most of the country is solidly against the government, and this includes low-income Venezuelans, once the base for *chavismo*. Paradoxically the repression seems to be strengthening opposition resolve. Perhaps Venezuelans have reached a tipping point. They will get new elections and freedom for political prisoners, or are ready to die trying.

The brutality also may be eroding the confidence of the men and women in uniform. Many seem not to have the stomach for the cruelty their Cuban handlers expect from their South American protégés. On May 5 opposition leader Henrique Capriles said 85 members of the armed forces, including some young captains and sergeants, had been detained by the regime for criticizing the repression. On May 19 a member of the National Guard was arrested in Táchira for having crossed over to defend protesters.

The international community has the power, through sanctions, to rein in Cuba. If it fails to do so, the Venezuelan opposition will be massacred.

Write to O'Grady@wsj.com.

Israelis and Palestinians, Working Together in Peace

By Oded Revivi

President Trump has described the conflict between the Israelis and the Palestinians in terms of a business negotiation. Days after taking office he told The Wall Street Journal that Middle East peace would be "the ultimate deal."

Mr. Trump might be onto something. Conventional wisdom for almost a century has dictated that for peace to prevail, Israelis and Palestinians must be physically separated. But separation is one of the main reasons the conflict drags on interminably. Peace is fostered over generations, through personal bonds and even business relationships.

Most Israelis and Palestinians don't interact with someone from the other side on a daily basis. The exceptions are the 450,000 Israelis and more than one million Palestinians who live side by side in Judea and Samaria, or what many call the West Bank. The tens of thousands who work together every day in the area's 14 industrial zones have built the closest bonds.

During his visit to Israel this week, Mr. Trump should drop in on a business like Lipski Plastics in the Barkan Industrial Park, some 15 miles east of Tel Aviv. Half the company's workers are Palestinian and half are Israeli. They eat, laugh and solve problems together. The Palestinians at Lipski make four times the average wage in the autonomous Palestinian areas. Many are in senior management, with dozens of Israeli employees beneath them. Muslim, Christian or Jew, these people return home each day with a sense of accomplishment knowing that they can provide for their families with dignity and pride.

Islands of peace like Barkan show what could be achieved on a massive scale by a leader with true vision. Sadly, for decades these examples have been largely ignored or boycotted because of the flawed notion that any Is-

raeli presence in Judea and Samaria is an impediment to peace.

Prime Minister Benjamin Netanyahu has proposed to restart negotiations with the Palestinian Authority and offered the possibility of further investment in industrial zones bordering Palestinian towns and villages. Businesses like Lipski Plastics may not be as glamorous as an international peace summit, but they are far likelier to yield serious dividends in the long run.

Opportunity, not separation, will bring order to the region.

The new White House has already brought a fresh perspective to the Middle East. Mr. Trump's special envoy, Jason Greenblatt, broke with decades of failed U.S. State Department policy by meeting in March with a delegation of Israeli residents of Judea and Samaria. He also met with young Palestinians and Israelis from across the political, religious and socioeconomic spectrum.

These meetings demonstrated a genuine attempt to understand the reality on the ground, something that has been lacking in international diplomatic efforts for decades. This is how peace will be built.

Millions of Americans voted for Mr. Trump because they were tired of business as usual. They saw him as a blue-collar billionaire who empathized with them and could get them back to work. If Mr. Trump really wants to broker peace between the Israelis and the Palestinians, he will need a lot of patience. Like the skyscrapers that bear his name, this deal will have to be built from the ground up, one brick at a time.

Mr. Revivi is chief foreign envoy of the Yesha Council, which represents the 450,000 Israeli residents of Judea and Samaria.

OPINION

The Unraveling Trump-GOP Bargain

By Alan S. Blinder

Republicans in Congress appear to have struck a Faustian bargain with President Trump: They turn a blind eye to his antics, ethical lapses, possible Russian ties and sheer incompetence. In return, he supports their hard-right agenda to shred the social safety net and cut taxes on the rich.

But now—after the clumsy firing of FBI Director James Comey, the alleged obstruction of justice, the unconscionable revelation of sensitive intelligence to Russia, assorted other Trump misdeeds and gaffes, and the appointment of Robert Mueller as special counsel—the bargain may be unraveling. Thank heaven.

The pact's last best hope may be the American Health Care Act, a truly cruel piece of legislation already passed by the House. Getting the bill or something similar through the Senate would fulfill Republicans' pledge to "repeal and replace ObamaCare"—though not with "something great," as President Trump promised.

How, amid the chaos, will the House and especially the Senate find time to agree on legislation?

Rather, the AHCA would be something horrible for tens of millions of Americans who would lose their health insurance or have their Medicaid coverage eviscerated. Only the richest would get "something great": hundreds of billions in tax cuts.

Fortunately, the AHCA now looks like a long shot. Republican senators say they won't accept the House bill but will write their own from scratch, and several major provisions



White House budget director Mick Mulvaney, right, at the U.S. Government Publishing Office plant in Washington on May 19.

of the House version are anathema to GOP moderates. Further, the Senate has notoriously narrow bandwidth and relatively few legislative days to deal with what's already, or soon will be, on its plate.

Such as the budget. In March the White House released its "skinny budget," so named because it covers only appropriated funds (a minority of spending) and is extremely light on details. For example, it calls for slashing U.S. State Department funding by 28% but doesn't say how. Presumably the answers will come in the real budget, due out Tuesday.

Will the president's budget, or any budget, pass? Bet against it. Remember, for years Congress has been too tied up in knots to pass a budget. Besides, another foolish confrontation over the debt ceiling looms this fall. Lawmakers will somehow have to squeeze these and other matters into schedules crowded with investigations, maybe even impeachment proceedings.

The debate over the president's budget will be highly partisan. The

proposal is expected to include sharp cuts in social spending, just as a succession of budgets suggested by now-Speaker Paul Ryan have done for years. Why? Well, there's plain mean-spiritedness. But Republicans also want the cuts to pay a fraction of the cost for what Mr. Trump has called "the biggest tax cut in the history of our country"—though it would also be the most regressive tax cut in its history.

The one-page tax reform "plan" the administration released last month was mostly empty space. If you omit the hortatory language at the top and bottom of the page, it included exactly 107 substantive words about tax reform. (I counted.) Example: Under "Business Reform," the administration says it will "eliminate tax breaks for special interests." Oh? Which ones?

Experts cannot estimate the effects, such as how much tax revenue would fall, since the plan is mostly blank space. But heroic guesstimates based on Mr. Trump's campaign proposals suggest tax revenue

would fall by \$5 trillion to \$6 trillion over 10 years—and a lot more thereafter. Republicans will doubtless try to cover up this huge cost with trumped-up growth forecasts and legislative chicanery.

Then there's the crowded congressional calendar again. Big tax proposals are hugely contentious and require enormous congressional time and energy. How, amid the Trumpian chaos, the health-care debate and more, will the House and especially the Senate find time to agree on a tax bill? A month ago, I was convinced Republicans would find a way to pass tax cuts, though not tax reform. Now, even that is in doubt.

Finally, the parts of the GOP's ambitious deregulatory agenda that require legislation may also fall by the wayside. One important victim, I hope, is the 591-page Choice Act, the "repeal and replace" of the Dodd-Frank financial reforms. The legislation passed the House Financial Services Committee on a straight party-line vote on May 4, but that may be as far as it gets.

The big "choice" the bill makes is to allow Wall Street to return to the Wild West atmosphere that existed before the financial crisis. It would exempt big banks from many regulations if they hold 10% capital; it imagines that a bankruptcy court could handle a gigantic financial failure like Lehman Brothers; it would cripple the Consumer Financial Protection Bureau; and it would push the Federal Reserve to follow a mechanical rule for monetary policy. And more.

The Choice Act never would be missed. Neither would the rest of the Faustian bargain.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.

Anti-Trump Democrats Invite Chaos

By Ted Van Dyk

"**A** jackass can kick down a barn," said the legendary Speaker Sam Rayburn. "But it takes a carpenter to build one."

Democrats should reflect on that wisdom as they consider the special counsel now appointed to investigate President Trump's alleged ties to Russia. In the short term, the inquiry will probably hurt Mr. Trump and feed attempts to drive him from office. But in the end the president's attackers will pay a price.

The political and media hysteria surrounding the Trump administration lies somewhere on the repulsiveness scale between the Jacobin excesses of the French Revolution and the McCarthy era. Thus far the public knows of no presidential action that would justify impeachment. Never mind, the crowd cries, let us have the verdict now. We can do the trial later.

If they succeed in bouncing the president from office, they may find that what comes next is even worse.

What about discussions between Trump campaign advisers and Russian or other foreign leaders? Don't they count as high crimes and misdemeanors? No, such conversations take place all the time in national campaigns.

What about the firing of FBI Director James Comey? Wasn't that suspicious? No, Mr. Comey disregarded the Justice Department chain of command and the normal proprieties of his office. He made public statements about active investigations. He allowed it to leak that the president had suggested leniency for Mike Flynn, the former White House adviser now under investigation. A presidential suggestion of that nature would be neither illegal nor unprecedented.

What about Mr. Trump's disclosure of classified information during a meeting with Russian leaders? It's a tempest in a teapot. The president has the authority to classify or declassify information as he wishes. I have witnessed other presidents doing it.

What about Mr. Trump's executive order declaring a short-term pause on immigration from countries with active terrorist movements? It may have been poorly handled, but other presidents have done similar things.

What about all Mr. Trump's flip-flopping? Shouldn't a president be trustworthy and reliable? Yes, but when Mr. Trump has reversed his campaign pledges it has been mostly for the good.

If Mr. Trump were a conventional president, these missteps would be shrugged off as growing pains or considered worthy of only mild reproof. President Trump, it is true, lacks the knowledge, experience and temperament for the office. His crude narcissism is grating. He has carelessly contributed to his problems with heedless public statements. He nonetheless was duly elected and should be given the leeway that new presidents are traditionally afforded.

Critics, moreover, misread the temper of the American people. Most voters don't much like Mr. Trump. But they like chaos less.

I spoke recently to a Democratic group consisting mainly of Bernie Sanders supporters. Many were searching for a constructive response to the Trump presidency. They were people, as the saying goes, seeking to light a candle rather than curse the darkness.

I suggested that they concentrate on developing alternatives to Mr. Trump's proposals—on health care, taxes, the budget. "You mean we should help Trump?" someone asked. "No," I answered, "you should help your country." I was surprised by the outburst of applause that followed.

Democrats, in their all-out opposition to Mr. Trump, are missing real opportunities to influence policy. The tax-reform debate is a prime example. If Democrats were shrewd, they would try to negotiate a grand compromise, in which loopholes are scrubbed from the code and Social Security and Medicare put on sounder long-term footing. But to get there, purposeful polarization must give way to constructive engagement.

Trump haters disregard an old rule of politics and history: In the end, voters always choose order over disorder. Kicking Mr. Trump to the curb wouldn't return the country to the pre-Trump status quo. It would likely bring forth new law-and-order leadership more disciplined and conservative than Mr. Trump's.

Mr. Van Dyk was active for more than 40 years in Democratic administrations and campaigns, including as Vice President Humphrey's assistant in the White House.

The Market's Tough Love Delivers

By Andy Kessler

Foot Locker's stock imploded on Friday—crashing down \$12, or 17%. It happens all the time, one of the great features of the stock market. A week earlier, Snap, which went public two months ago, saw a chunk of value disappear. It dropped almost 25% overnight after the social-media firm revealed that sales were up only 5% and the number of users was a little light—oh, and that it had lost \$2.2 billion. That's billion with a "b." Even if you take out one-time costs, the company lost \$200 million on \$150 million in sales. Impressive.

Did I mention CEO Evan Spiegel got a \$750 million bonus for taking the company public? Investors who bought the stock didn't want to ruin the party, figuring it was going to turn into the next Facebook. Snap's stock was selling at 44 times future sales, on the expectation that growth and profits were coming. Or not. After lousy earnings, investors basically shouted, "Enough!"

No one sits around and says, "we need to teach Snap a lesson." Rather, it's the collective selling that sends the message. That same day, CEO Travis Kalanick of Uber, another company with gargantuan losses and personnel issues, tweeted and then deleted, "Thank God we're not public." But Uber should be public. If only for the discipline of the public markets that its board of directors refused to impose.

Many people think the stock market is a cesspool of Wall Street greed. I look at it differently. To me, the stock market is the greatest enforcer ever invented. No person controls the market. Investors separately make decisions every day to buy and sell. But collectively they enforce discipline on corporations. Buy and sell orders have more sway over CEOs than corporate boards, Congress or any White House.

United Airlines stock fell 6.3% before the market even opened after it

"reaccommodated" a passenger, in the wording of its CEO. Twitter's stock is down almost 75% from its 2014 peak and has been in the penalty box since early last year after revelations of lame user growth. Yelp was pummeled by a 28% drop a few weeks back and is now exploring markets beyond reviews. The stock market gets the job done.

If only government had the discipline that traders impose on companies.

Going public also provides CEOs the cheapest form of capital: You issue pieces of paper giving claim to a share of future profits. You can use that capital to do anything and don't ever have to pay it back. But if you want more, you'd better get yourself on a path to growth and profits. It's that simple.

But the Faustian bargain is that you live by the rules of the enforcer: Feed success, starve incompetence. That's it. Markets provide cheap capital to those that can grow productively and profitably, and make funds expensive for the rest. This is how capital is allocated efficiently. The more human hands touch the process, the worse the outcome (see Chrysler, Solyndra).

No one likes layoffs. No one looks forward to closing divisions or firing CEOs. Instead, the stock market does the dirty work, mimicking Col. Jessup—Jack Nicholson's character in "A Few Good Men"—who says, "You don't want the truth because deep down in places you don't talk about at parties, you want me on that wall. You need me on that wall."

As Amazon stock hits all-time highs 20 years after its initial public offering, retailers are getting whacked. You'd think they'd have seen it coming, but the stock market sent the wake-up call. Sears

peaked in 2007 and has since been starved of capital. Macy's peaked in July of 2015. J.C. Penney halved in the past six months. Both Target and Dick's Sporting Goods were down last week, and both are scrambling to upgrade stores and increase digital sales.

The enforcer shakes up politicians, too. On Sept. 29, 2008, the Dow Jones Industrial Average fell 777.68 points on news that Congress had rejected the bank-bailout bill. Message sent. The Troubled Asset Relief Program was signed into law Oct. 3. That's action. The Brazil stock market dropped 10% on Thursday with troubles surrounding the country's president. In the U.S. the Trump bump hasn't let up, but investors got queasy on news of a special prosecutor.

Mr. Kessler writes on technology and markets for the Journal.

The U.S. Can Get Assange

By Seth Lipsky

Julian Assange is all smiles after Sweden dropped its rape charge against him. He may be hoping to make it to Ecuador, which is unlikely to extradite him to America. Then again, we could always seize him and spirit him to the U.S. to face justice. We wouldn't have to resort to the extradition process. The Supreme Court might even prefer it that way.

Take it from Chief Justice William Rehnquist, who wrote the opinion in *U.S. v. Alvarez-Machain* (1992). It suggests that if America has a hand in kidnapping a culprit from foreign shores to bring him to justice in the U.S., the Supreme Court isn't going to be too particular.

I've written about this over the years, including in 2009, when Scotland freed Abdelbaset Ali al-Megrahi to go home to Libya. He'd been convicted for his role in bringing down Pan Am 103 in 1988. It struck me that America ought to capture Megrahi and bring him before an U.S. court. President Obama could have acted under the precedent in the case of Humberto Alvarez-Machain, a Mexican physician.

The doctor was indicted for his alleged role in the murder of a U.S. Drug Enforcement Administration agent, Enrique Camarena Salazar. He was accused, as Rehnquist put it, of "prolonging agent Camarena's life so that others could further torture and interrogate him." On April 2, 1990, the doctor was, as Rehnquist put it, "forcibly kidnapped from his medical office in Guadalajara, Mexico, to be flown by private plane to El Paso, Texas, where he was arrested by DEA officials."

A U.S. district court concluded that the DEA was responsible, even though its agents weren't personally involved. Dr. Alvarez claimed his abduction, in Rehnquist's paraphrase, "constituted outrageous governmental conduct." A dainty

district court and the Ninth Circuit appeals bench were prepared to free Dr. Alvarez.

The Supreme Court was made of sterner stuff. It did cite a precedent, *U.S. v. Rauscher*, which blocked the prosecution of a defendant brought to America from England for a crime not covered in the extradition treaty between the two countries. The court took the view that once the U.S. proceeded under an extradition treaty, it was bound by its terms.

But the court also cited *Ker v. Illinois* (1886), which involved a thief, Frederick Ker, who'd been convicted in Illinois but fled to Peru, only to be brought back to court by a Pinkerton agent. Rehnquist wrote that Ker's "presence before the court was procured by means of forcible abduction from Peru." But because he wasn't brought back via extradition, the court rejected his claims to rights under extradition law.

Which brings us to Mr. Assange. If his plan is to slink to Ecuador and if the U.S. really wants him, it might do better by avoiding extradition and turning to its secret services to airlift him to stand trial in America.

Even if America kidnaps him, that might not be the end of the story. Witness the denouement of the saga of Dr. Alvarez-Machain, who was put on trial in the same district court that shrank from trying him originally. The judge acquitted him before the case went to the jury. Dr. Alvarez-Machain then sued America and the Mexicans who'd kidnapped him in league with the DEA. That case, too, went to the Supreme Court, where in 2004 Dr. Alvarez-Machain lost unanimously.

It's not clear the U.S. wants to put Mr. Assange on trial. If it does, though, the moral of *Alvarez-Machain* is that it doesn't have to be squeamish about how it gets him here, even if he's hiding south of the border.

Mr. Lipsky is editor of the New York Sun.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, May 23, 2017 | B1

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Huntsman in Deal With Clariant

Tie-up forms \$14 billion chemicals giant with potential synergies of \$400 million annually

Huntsman Corp. and Switzerland's Clariant AG struck a deal to merge, creating a chemicals giant worth about

By Ben Dummert,
Dana Mattioli
and Dana Cimilluca

\$14 billion as companies in the industry seek ways to cut costs and boost revenue.

The deal, which comes after The Wall Street Journal reported the talks Sunday, will see Clariant shareholders owning about 52% of the new entity, and Huntsman investors owning the rest—based on their current values. Huntsman Chief Executive Peter Huntsman will retain his job title at the new company, with Clariant CEO Hariolf Kottmann taking the chairman role. The new group, with board repre-

sentation evenly split, will be called HuntsmanClariant.

Shares of Huntsman fell 1.5% to \$26.35 in early trading, while shares of Clariant climbed 3.1% in Swiss trading.

The deal would create a trans-Atlantic company valued at about \$20 billion including debt, offering an array of chemicals such as polyurethanes, pigments, automotive fluids, additives and resins that are used across industries ranging from aerospace to agriculture to household cleaning.

Together Huntsman, which is based in Woodlands, Texas, and its Switzerland-based rival would operate in more than 100 countries and employ about 32,000. Combined they would generate annual revenue of more than \$13 billion. Huntsman, as previously announced, still plans to spin off its Venator pigments and additives business through an initial public offering this summer.

The Huntsman-Clariant tie-up comes amid a period of consolidation in the chemi-



Peter Huntsman, left, and Clariant's Hariolf Kottmann in Zurich Monday.

ARD WIEGMANN/REUTERS

cals industry as companies seek to cut costs by eliminating overlapping operations and products, and identify new sources of revenue by tapping new markets and customers. The deals are also meant to help the companies combine resources to bolster the research and development for new products.

"Combining our companies should give us more stable

and steady earnings, increased margins and new growth opportunities," Mr. Huntsman said in an interview. "For either side to get to a \$20 billion enterprise value would take many, many years of organic growth." He added that the deal will "double our reach without stressing the balance sheet."

Another benefit of the Huntsman-Clariant tie-up, the

companies said, is a broader, more balanced geographic footprint. The so-called annual synergies from putting the companies together could reach \$400 million.

U.S. paint and coatings maker PPG Industries Inc. is in a battle to acquire Dutch rival Akzo Nobel NV for \$27 billion in cash and stock. Its advances have been repeatedly rebuffed, and the next week or so is expected to be crucial in determining whether the deal happens. Meanwhile Praxair Inc. and Germany's Linde AG are trying to complete their merger to create the biggest industrial-gas player with a market value of more than \$66 billion.

The lack of major revenue growth last year by Huntsman and Clariant demonstrated the challenging environment that the chemicals industry faces. Huntsman reported a 6% revenue decline to \$9.66 billion in 2016, hurt in part by soft demand and difficulty raising prices for some products. The

Please see DEAL page B2

OPEC Faces Iraqi Hurdle

BY BOEN FAUCON AND SUMMER SAID

VIENNA—Iraq has become a potential obstacle to OPEC's efforts to continue cutting output into next year, representatives of the cartel said Monday, prompting Saudi Arabia's energy minister to fly to Baghdad for meetings.

The Organization of the Petroleum Exporting Countries is set to meet Thursday to discuss an extension of production cuts of 1.8 million barrels a day that were agreed upon last year with allies outside the group, such as Russia. An extension is widely expected and, until now, there had been few obstacles to an agreement.

OPEC officials say Iraq—the cartel's second-largest member—has expressed support for renewing the agreement for only the next six months, not the nine-month extension that Saudi energy minister Khalid al-Falih has endorsed. Russia, Kuwait and Venezuela have also expressed support for a nine-month extension.

Mr. Falih flew to Baghdad Monday to persuade Iraqi oil officials to get on board with the longer agreement, OPEC officials said.

The quibbling demonstrates how the debate at the cartel's Vienna meeting this week will be over how long to extend the cuts for, not whether to extend them. "All producers agree on the idea of extending the deal but the duration will be decided during the meeting," said OPEC Secretary-General Mohammed Barkindo at a news conference on Monday.

Iraq was among the most reluctant countries to join production-cutting efforts in November last year, agreeing only at the last minute.

The country needs as much oil revenue as possible to maintain a war against Islamic State. Its oil production is serviced by multinational energy companies that are trying to recover billions of dollars of investments in Iraq by pumping as much as possible.

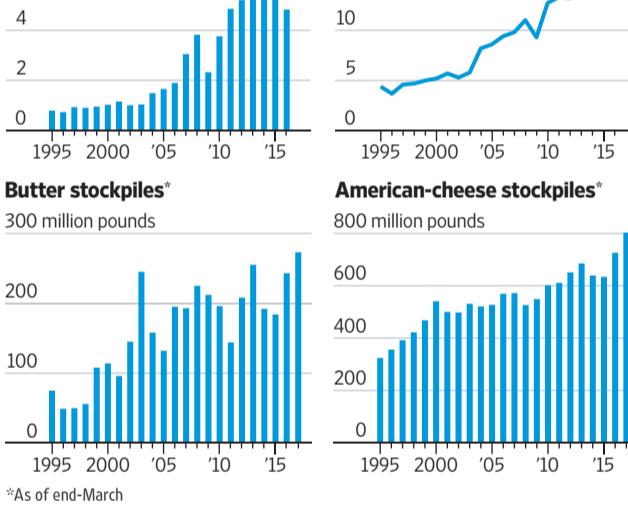
The nine-month extension has become part of talks since oil-market experts realized this month that the OPEC-led production cuts wouldn't drain high levels of oil in storage by the end of this year. Extending the cuts into 2018 also reduces the uncertainty that OPEC could reverse the decision at its next expected meeting before Christmas.

Got Milk? Way Too Much, Say Farmers

Many bulked up their U.S. herds when prices were high, but then trouble struck in the global market

Creamed

U.S. dairy exports have declined amid growing product stockpiles.



The U.S. dairy industry is taking a hit from weaker-than-expected demand and abundant supplies.

By HEATHER HADDON

U.S. dairy farmers' big bet on global demand for milk is souring.

The industry was in trouble long before a trade squabble with Canada last month that reduced demand for ultrafiltered milk, a cheese ingredient. Dairy farmers fear a spat that has jeopardized roughly \$150 million in sales for Wisconsin, New York and Minnesota producers is just a prelude to disruptions to come if President Donald Trump renegotiates the North American Free Trade Agreement as

promised.

"There was a perfect storm," said Jaime Castaneda, senior vice president of trade policy at the National Milk Producers Federation.

Dairy farmers aggressively expanded their herds three years ago when milk prices were driven up by growing demand from middle-class consumers in North America, Asia and other markets. By March, there were 9.4 million commercial dairy cows in the U.S., a 20-year high, according to the country's Agriculture Department.

But China, Russia, Venezuela and other importers scaled back their dairy purchasing in recent years because of domestic troubles. The European Union, meanwhile, greatly increased its dairy production after lifting 30-year-old quotas in 2015.

Then came a world-wide surge in agricultural production that has pushed down prices for grains and meat as well as for dairy.

The dollar has also been on a multiyear climb, making U.S. exports less competitive. Milk prices have plummeted by one-third in the past two

years, USDA data show. The value of U.S. dairy exports was \$4.8 billion last year, down 50% from 2014.

Milk prices in March stood at \$17.30 per hundred pounds, the USDA said, down \$1.20 from a month earlier. That industry benchmark is an average of prices farmers receive. It is based on a variety of dairy products including butter, cheese and skim-milk powder.

Commodities markets such as dairy are prone to booms and busts because of the long lead time to

Please see DAIRY page B2

HEARD ON THE STREET | By Nathaniel Taplin

China Oil Giants Need Fast Overhaul

Massive market shares, easy access to cheap capital, and the power of the government behind you—being a Chinese state-owned oil major must be fantastic, right?

In reality, while China's three listed oil giants—**PetroChina**, **Sinopec** and **Cnooc**—enjoy many advantages, they spend too much employing too many people while being expected to sell fuel at a discount when prices rise sharply. In recent years, they have also come under political attack thanks to Beijing's crackdown on graft.

Their sorry state makes a reform blueprint released over the weekend by the State Council, China's cabinet, of potentially great interest to investors. Areas highlighted for change include shedding "societal functions" and resolving "legacy issues"—Chinese oil

officials speak for eliminating redundant workers and bringing in more flexible fuel pricing. Reformers will have to move fast, however, if they don't want to run afoul of China's political calendar.

And the document's relatively tough language on "slimming down" is balanced by waffling on price controls. Slimmer workforces could make an enormous difference. PetroChina had more than half a million workers in 2016, but produced only slightly more oil and less natural gas than Exxon Mobil, which struggled with 71,000 employees. The company's labor costs clocked in at nearly \$17 billion, more than three times its actual earnings. Partly as a result, PetroChina trades at only 0.8 times its book value—against 2 times for Exxon and 1.2 times for Royal Dutch Shell.

Still, if China's economy slows sharply in the second half of 2017, shepherding through any big layoffs will become politically difficult—

particularly with an important Communist Party meeting looming this fall. Economic data from April hinted that China's business cycle is already peaking.

Price controls are the other big drain on Chinese oil majors' earnings. Regulators periodically adjust domestic fuel prices, usually with a lag to global price movements, leading to big losses when crude rises sharply. Sunday's document called for a bigger role for market prices, but added the government should keep the right to control "abnormal" price movements. As long as the government retains discretion to intervene on pricing, shareholder returns will remain hostage to Beijing's broader worries regarding inflation.

This weekend's blueprint contains some hopeful signals. But if Beijing doesn't roll out further details quickly, investors shouldn't expect too much from this latest reform broadside.



Blake Harvey, CEO of a communications firm, works in a leased office down the hall from his employees.

CEOs Want Their Offices Back

By VANESSA FUHRMANS

The lofty building Jordan Hamad moved his tech-advisory firm into four years ago had the trappings of a startup idyll: open floor plan, polished concrete floors, custom-built communal tables.

Soon, the 33-year-old founder of **Chairseven** says he

craved something else: walls and a door. The floors, it turned out, damped none of the sound. Instead of constantly trading ideas, he and his team often wore noise-canceling headphones to block out the din.

For private meetings or calls, he would sequester himself in the noisy printer room or at home. "It was, 'Yay, we have this great space, but I can't really use it,'" he said.

Now as he moves the com-

pany from Portland, Ore., to New York, Mr. Hamad has joined a cadre of bosses chucking the egalitarianism of working alongside their employees for the old-fashioned private office. Their open-office revolt, they say, is less about reclaiming the corner office than about needing a quiet place to think.

"People will say it's so cool

Please see CEO page B2

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	Group.....B2	
Akzo Nobel.....B1,B4	G	PPG Industries.....B4
Alibaba Group Holding.....A8	H	Procter & Gamble.....A8
B	I	General Electric.....A8
Berkshire Hathaway....B2	J	Huntsman.....B1
Boston Scientific.....B3	K	RH.....B9
C	L	Renault.....B9
Chairseven.....B1	M	Schlumberger.....A8
CircleCI.....B2	N	Sherwin-Williams.....B4
Citigroup.....B11	O	Sinopec Shanghai Petrochemical.....B1
Clariant.....B1	P	Steelcase.....A1
CNOOC.....B1	Q	SunRun.....B12
Coca-Cola.....B3	R	Tabb Group.....A8
Elliott Management...B4	S	Tencent Holdings.....B12
Exxon Mobil.....A5	T	Valspur.....B4
F	U	Youku Tudou.....B12
Ford Motor.....A1,A2	V	
Fortescue Metals	W	
	X	
	Y	
	Z	

INDEX TO PEOPLE

A	Forrest, Andrew.....B2	
Augustin, Sally.....B2	G	Kuroda, Haruhiko.....B5
B	Ghosn, Carlos.....B9	
Barshefsky, Charlene.....B6	H	Granade, Matthew.....A8
Batista, Joesley.....A4	I	Grant, Hugh.....B4
Büchner, Ton.....B4	J	Hackett, Jim.....A1,A2
Bellairs, Chris.....B2	K	Haddad, Gilbert.....A8
Bloomberg, Michael.....B2	L	Hamad, Jordan.....B1
Byers, William.....A8	M	Harvey, Blake.....B2
C	N	Huntsman, Jon.....B2
Campbell, Kurt.....B6	O	Huntsman, Peter.....B1
Castaneda, Jaime.....B1	P	Jones, John Tudor.....A8
Cohen, Steven A.....A8	Q	Kausikan, Bilahari.....B9
D	R	Klarman, Seth.....B12
De Prado, Marcos Lopez.....A8	S	Kottmann, Hariolf.....B1
F	T	Villani, Dario.....A8
Fields, Mark.....A2	U	
	V	
	W	
	X	
	Y	
	Z	

DAIRY

Continued from the prior page
ramp up supply. But the current glut—and the accompanying downswing in exports—might pose one of the biggest challenges yet to the U.S. dairy industry.

"A lot relies on exports, and that's why swings are such a big deal," said Ben Laine, an economist at CoBank Acb, an agriculture cooperative bank. "That's where any surplus goes."

The glut is likely to grow this spring, the most productive time of the year as temperatures rise and days grow longer. An unusually mild winter started this year's milking season months early at some dairies, further contributing to the milk crush.

"You can't turn the cows off," said Ken Nobis, president of a dairy cooperative in Michigan, where the busy season started three months early.

A recent interview, Agriculture Secretary Sonny Perdue said renegotiating Nafta could improve access to Canada for U.S. farmers. "We're going to try and balance the scorecard in a number of ways," he said.

Tom Vilsack, agriculture secretary during the Obama administration and current president of the U.S. Dairy Export Council, urged the Trump administration to find new foreign buyers for American milk.

"To keep pace with those efficiencies in productivity, we have to look for additional markets," Mr. Vilsack said.

Meanwhile, U.S. dairy products are piling up. The U.S. has more than 800 million pounds of American cheese in reserve, the most since 1984, according to the USDA. The amount of butter in reserve totals 272 million pounds, the most since 1994. Some U.S. farmers are dumping millions of pounds of excess milk onto fields. In the Midwest and Northeast, nearly 78 million gallons of milk have been dumped so far this year, up 86% from the same period last year.

Lawmakers from Wisconsin and New York are asking the USDA to buy excess cheese again. Last year, the agency spent \$20 million to purchase cheese from private inventories for food banks and pantries.

The USDA already spent all authorized funds to buy up excess dairy this fiscal year, but the new request is under consideration, an agency spokeswoman said.

Some big purchasers such as Dean Foods Co. say they don't even try to predict milk prices anymore.

"We learned our lesson back in 2014," said Chief Financial Officer Chris Bellairs, referring to a year when spiking milk costs drove losses for Dean. "The market was volatile, and it remains that way today."

To cope, farmers need to stop expanding their herds, said Mark Stephenson, director of the Center for Dairy Profitability at the University of Wisconsin-Madison. "That's something we don't want or need," Mr. Stephenson said.

—Jacob Bunge contributed to this article.



A New York dairy farm. The milk glut is expected to get worse.

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THE WALL STREET JOURNAL

DEAL

Continued from the prior page

company's additives and other performance-enhancing chemical products posted the biggest revenue decline both for the year and in the fourth quarter when competitive market conditions and lower average selling prices weighed on results.

Clariant fared better, posting revenue of 5.85 billion Swiss francs (\$5.96 billion) last year, up 2% measured in local currency, or 1% in Swiss francs. The company attributed that revenue gain to relatively strong growth in Asia, the Middle East and Africa, which helped to offset a

weaker performance in North America, Europe and Latin America. The company said demand for higher-margin specialty industrial and consumer chemicals used in products such as laundry detergent and aircraft deicing fluid was particularly strong.

Both companies' shares have nevertheless performed well, helping set the stage for the merger, which came together in a matter of a few weeks after years of on-and-off discussions, a person familiar with the matter said.

Each company had a market value of roughly \$7 billion as of Friday.

"This is...the right time" for the deal as the companies aim to broaden their global reach and bolster R&D capabilities,

Mr. Kottmann said.

The deal brings together two of the most-recognized names in the chemicals industry. And both have incorpo-

rated deal-making as a key part of their strategies to expand. Huntsman's roots date back to 1970, when Jon Huntsman Sr. founded Huntsman Container Corp. Since then, the company has had a series of acquisitions and joint ven-

tures in Europe, India and China as part of its global expansion plans.

Clariant was formed in 1995, a spinoff from the chemical company Sandoz, whose history dates back to Basel in 1886. Clariant has also been an active acquirer, targeting deals in the U.S. and Europe to broaden its portfolio of specialty chemicals.

Citigroup and UBS Group AG served as Clariant's financial advisers on the deal, while Homburger, and Cleary Gottlieb Steen & Hamilton were Clariant's legal advisers. BofA Merrill Lynch and Moelis & Co. were financial advisers to Huntsman. The company relied on Kirkland & Ellis, Bar & Karrer and Vinson & Elkins for legal advice.

BUSINESS & FINANCE

Mining Tycoon Digs Deep

By ROB TAYLOR

CANBERRA, Australia—Andrew Forrest, a one-time alpaca importer, recast the global iron-ore industry by building a tiny Australian company into the world's fourth-biggest miner of the commodity. Now, inspired by American billionaires Mark Zuckerberg and Warren Buffett, he wants to energize philanthropy in his country.

Mr. Forrest, the 56-year-old founder and chairman of **Fortescue Metals Group** Ltd., said Monday he would give 400 million Australian dollars (US\$298 million) to fund campaigns against cancer and slavery, as well as improving child education. It represents the largest philanthropic donation ever made by a living Australian.

Mr. Forrest, widely known as "Twiggy," said his donation would be in cash and wouldn't require him to reduce his more than 30% stake in Fortescue, valued at around A\$5 billion.

"I am encouraged by what has been happening in America," Mr. Forrest said in an interview. "I can say candidly that they have helped lead us and I would love to see that culture spread right across Australia."

Mr. Zuckerberg, Facebook Inc.'s founder, announced in 2015 that he would give away 99% of his family's net worth to fund public education. Microsoft Corp. co-founder Bill Gates and his wife in 2000 set up one of the world's largest private foundations—worth US\$39 billion—to help fight global poverty and underpin health research.

In 2006, Mr. Buffett, chief executive of **Berkshire Hathaway** Inc., said he would give away the bulk of his US\$73

billion fortune for philanthropy. He then joined with Mr. Gates and other donors in 2010 to form the Giving Pledge, urging other ultrarich Americans to donate at least 50% of their wealth.

Mr. Forrest said he and his wife, Nicola, have joined the Giving Pledge.

Australian corporate donors have lagged behind their American counterparts, according to lobby group Philanthropy Australia. That is despite Australia's economy navigating 25 years without recession—the longest continuing growth streak in the developed world.

Mr. Forrest's road to riches hasn't been without its bumps. Some of his early ventures—importing alpacas from the Andes to sell in Australia and using Cuban technology to build a nickel plant—failed, but he rebounded after launching Fortescue in 2003.

For a short time, he was Australia's richest man, worth almost A\$13 billion at the height of a China-led mining boom in mid-2008.

Fortescue racked up an estimated A\$10 billion in debt on a bet that iron ore would continue to command high prices, buoyed by Chinese demand.

The company has survived several turbulent periods, notably during the 2008 financial crisis and in September 2012, when it was forced into emergency talks with lenders. Fortescue's debt has since come down sharply, helping the company's stock price to hit a six-year high in February.

Mr. Forrest was flanked by celebrities and political leaders, including actor Russell Crowe and Prime Minister Malcolm Turnbull, when he announced his donation to Australia's parliament on Monday. Around A\$225 million will be divided between

cancer research, higher education and childhood research, while A\$50 million will go to help alleviate poverty among indigenous people. Another A\$75 million will be channeled to fight modern slavery.

Mr. Crowe, a longtime friend of Mr. Forrest, said Australia needs to change policies to "accelerate and expand" philanthropy to match America. "But this is an extraordinary example to put up in front of people," he said.

Global commodities trader and billionaire Graham Tuckwell last July made Australia's largest philanthropic contribution to a single university, donating A\$200 million over several decades to the Australian National University in Canberra. Separately, health-care magnate Paul Ramsay left A\$3 billion in a foundation to fund health research and poverty alleviation following his death in 2014.



Andrew Forrest, founder of Fortescue Metals, said he and his wife have joined the Giving Pledge.

was worried about the business, there was no hiding. "If I was a little down, they could see that, and that affects the whole team," he says.

So when the firm signed a few new clients this year, he leased an office from office-space provider Servcorp Ltd. just down the hall from his employees. Having his own space, he says, makes him feel more like a leader. After brainstorming or regrouping with some music or even watching an inspirational video, "I can get back out there with my Superman cape on," he says.

Another upside: His pedometer registers at least 10,000 steps by the end of the workday, thanks to the to and fro from his office to employees' desks.

"When you're in a territory that's clearly yours, you perform better," says Sally Augustin, an environmental psychologist and principal at La Grange Park, Ill.-based con-

sulting firm Design With Science.

Even watching a boss and co-worker move into a separate space for a meeting can be distracting, she adds.

"People's minds never go to Bob must be getting a promotion," she says. "It's, 'Bob must be in trouble. This is the beginning of the end for Bob.'"

For some bosses, though, the future may resemble the setup of Jim Keane, CEO of Steelcase Inc., maker of office furnishings. Last year, he and the rest of Steelcase's leadership team worked in their own open-style wing, his desk semi-enclosed by partitions.

He has since moved to a 5-by-8-foot pod in the company's innovation center. He retreats to it when he needs to focus or switch mental gears between meetings. Otherwise, he is out on the floor, with customers and employees, or in other enclaves for meetings.

It's not about status or privilege," he says of the pod, a prototype with still-exposed two-by-fours. "This is a space where you do certain kinds of work."

Open offices are so popular among tech companies that when **CircleCI**'s founders moved the software-testing startup from an open space in San Francisco to one with 25 closed offices in 2014, it paid half the market rental rate, says co-founder Paul Biggar. In Silicon Valley, many people are "playing startup," he says, emulating the open spaces of tech giants such as Google Inc.

In reality, he says, engineers need quiet places to concentrate—and so does he. "I love the private office," he says. Alas, CircleCI outgrew its private-office oasis and, after failing to find a larger one, returned to the open fray last fall. "There is a lot of [searching for] empty conference rooms now," he says wistfully.

HEATHER INSWORTH FOR THE WALL STREET JOURNAL

BUSINESS NEWS

Firms Win on Adjusted Earnings

By TATYANA SHUMSKY

Companies are winning over the U.S. Securities and Exchange Commission in their use of unofficial accounting figures, a year after a crackdown on the practice.

Medtronic PLC, Coca-Cola Co. and Boston Scientific Corp. are among the 35 out of

51 companies that have successfully demonstrated to the regulator that their adjusted earnings figures aren't misleading investors.

That track record highlights how the complexities and nuances in corporate accounting are complicating the SEC's job in policing earnings. For example, some companies are vulnerable to regular customer lawsuits that blur the line between an occasional expense and a regular cost necessary to operate the business.

Similarly, a restructuring plan announced in one year can bleed across several years, clouding the distinction between a discrete cost and a recurring expense.

An SEC spokeswoman declined to comment.

Large companies have the money and resources to lay out a detailed defense of disputed accounting practices. Chief financial officers can tap a vast brain trust of internal finance teams, consultants and legal counsel, as well as the board's audit committee, to respond to SEC concerns.

The agency last May issued new guidelines on the use of adjusted earnings and other figures inconsistent with U.S. Generally Accepted Accounting Principles. The move came amid concerns that these figures can misrepresent company performance and often furnish investors with a rosier picture of results by excluding unusual charges or the impact of currency swings.

The regulator questioned dozens of companies on whether some of these adjustments exclude regular busi-



Coca-Cola has convinced U.S. regulators that its adjusted results aren't misleading to investors. Above, a company plant in Utah.

ness expenses and could be misleading, according to an Audit Analytics analysis for The Wall Street Journal. In 69% of cases the SEC backed down and concluded its conversations with the company without forcing a significant change to its adjusted earnings presentation.

"What is reasonable to exclude and how do you decide what is normal?" said Paula Hamric, national assurance partner at accounting firm BDO USA LLP. "Even SEC staff haven't been able to answer that, other than on a case-by-case basis."

Medtronic in a Nov. 4 letter defended omitting restructuring costs from adjusted earnings after the SEC asked whether it was misleading because it excludes regular business expenses. "Restructuring charges are not necessary to operate the business and are

not necessary to generate revenue," said Karen Parkhill, CFO of the medical-technology company, in a letter to the regulator.

The SEC scored many victories early in its push against the proliferation of non-GAAP metrics. More than a quarter of S&P 500 companies voluntarily changed their press releases to report standard results first after the SEC updated its guidance last year.

Moreover, 29 out of 42 companies that were questioned about their use of so-called tailored revenue metrics, another non-GAAP figure forbidden by the new rules, changed their presentation of results to satisfy the SEC's concerns, according to Audit Analytics data.

The challenge for the SEC lies in drawing a distinction between outliers and regular business expenses, when many

fall into a gray area.

Coca-Cola told the SEC that what may at first appear to be recurring business expenses are in fact unique charges. The beverage maker adjusted its 2016 results for costs from an overhaul and subsequent divestment of its bottling plants in Germany. It also added back nonroutine charges such as severance pay, consulting fees and write-offs linked to a cost-cutting program expected to end in 2019.

"We believe these restructuring charges and charges related to our productivity and reinvestment program are not representative of the company's underlying operating performance and thus are appropriately excluded," said Larry Mark, controller, in a letter to the SEC in October.

A Coca-Cola spokeswoman declined to comment. A spokesman for Medtronic said

in an email that the company "responded directly and openly" to the SEC.

SEC correspondence becomes public about 20 days after the regulator judges the matter closed, although conversations can last for months and cover multiple topics. It isn't known how many matters are pending, as the SEC doesn't comment on cases.

Companies should establish a policy for how they calculate non-GAAP figures to ensure the practice is consistent from one period to another, said Beth Paul, partner at accounting firm PwC. Executives should work through the nuance and judgment and be prepared to defend it to the audit committee.

"That makes responding to a comment letter easier because you've talked through why it is you've made the adjustment," Ms. Paul said.

Arconic Sets Truce With Fund

By DAVID BENOIT AND DANA MATTIOLI

Arconic Inc. struck a deal to give hedge fund Elliott Management Corp. seats on its board of directors, a settlement that ends a bruising five-month battle days before a shareholder vote.

According to the agreement announced Monday, Elliott will receive board spots for three of its nominees, while Arconic keeps three of its own nominees, with one current director stepping down.

Elliott, which is pushing for an overhaul of the \$12 billion maker of parts for airplanes and automobiles, had wanted four of the seats. Arconic was formerly part of aluminum giant Alcoa.

Prior attempts at a settlement broke down over the roles Elliott's nominees would play on board committees and how long Elliott would agree not to wage another fight. The two sides were negotiating over the weekend ahead of Thursday's annual meeting, where shareholders are set to fill five seats on the company's 13-member board.

Elliott appeared poised to win at least two at Thursday's meeting in Purchase, N.Y. The hedge fund had locked up around 20% of the vote and won endorsements from influential proxy-advisory firms.

The settlement brings to a close one of the most intense activist battles in recent years. Elliott launched its campaign in January and immediately called on the company to fire longtime Chief Executive Klaus Kleinfeld, citing missed profit forecasts and lackluster stock performance.

Mr. Kleinfeld resigned unexpectedly in April after sending a vaguely threatening letter to Elliott founder Paul Singer.

Arconic shares were ahead less than 1% at \$27.78 in mid-day trading Monday.

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Retailer Focuses on Heavy-Duty Drones

JD.com's goal is to deliver shipments weighing one ton or more in Shaanxi

BY BRIAN BASKIN AND LIZA LIN

China's Shaanxi province is famous for being the start of the Silk Road, an ancient trade network where silk and spices were transported by camel across the Asian continent.

Soon, the central Chinese province will be recognized for a different form of transport.

Chinese e-commerce provider **JD.com** said Monday it is developing heavy-duty drones capable of delivering payloads weighing one ton or more, which it plans to deploy in Shaanxi.

JD, China's No. 2 e-commerce company after **Alibaba Group Holding** Ltd., in 2016 started delivering small packages via drone as a way to bring online orders to shoppers in remote rural villages. Its fleet of about 30 drones have already been bringing shipments to customers in the remote areas of Beijing, and in Sichuan, Jiangsu, Shaanxi and Guizhou provinces, which are home to more than 230 million people.

The larger drones would also ferry goods in the other direction. For example, farm-



JD.com drone transports goods between distribution centers in China's Jiangsu province in mid-2016.

ers looking to reach far-off urban markets could quickly ship fruit and vegetables that would have expired on a longer journey by truck, said Josh Gartner, a JD spokesman.

E-commerce and logistics companies around the world are experimenting with drone delivery, but most are focused

on moving small, high-value packages, such as electronics or medicine. **Amazon.com** Inc. made its first delivery to a customer in December, in rural England, but is limiting the service to items under 5 pounds. A United Parcel Service Inc. drone dropped off an inhaler to an island near Bos-

ton in September. Earlier in May, Airbus SE said it would start selling commercial drones in the U.S. for purposes such as monitoring crops and inspecting cellphone towers.

Efforts to launch large-scale drone service in the U.S. have run into regulatory roadblocks, with many of the tech-

nology's proponents predicting they won't see widespread use until at least 2020. Regulations are less of an issue in China, home to the world's largest civilian drone maker and where commercial drones are already widely used in farming. Local governments have offered up their airspace for drones and helped fund research. An arm of Shaanxi's government is covering part of the roughly \$150 million JD plans to invest in the province, where the retailer will also locate the headquarters for its logistics operations.

Heavyweight drones have their own set of problems. Where a small drone can be launched from almost anywhere, larger models need dedicated landing pads. Big, heavy drones can also be noisier, making them unwelcome in residential neighborhoods. Their extra size and weight also raise the potential damage from a crash, requiring extra motors, backup flight control systems and other fail-safes.

"The larger the vehicle and the higher the potential risk to people or property, the more redundancy and reliability you need," said Ben Marcus, chief executive of AirMap, which helps drone operators navigate airspace.

Giant military drones and other unmanned aircraft have

been in use for decades, Mr. Marcus said, but it is only recently that companies have begun exploring their commercial use. However, the bulk of investment is going toward smaller drones because "last-mile" delivery to customers' homes is usually the most expensive leg of the supply chain, he said.

In China, unauthorized drones have caused flight delays in several cities this year, leading authorities to introduce tighter regulation.

JD's Chairman Richard Liu sees drones as way to reach millions of potential customers outside China's major cities, an enormous market in which it competes fiercely with Alibaba. In one Chinese province, Mr. Liu said he plans to build 150 drone delivery sites within the next three years.

Delivery costs in Chinese cities are inexpensive, as order densities are high and labor costs are low. However, in the rural areas, shipments are fewer and the road infrastructure is less developed, making deliveries inefficient and costly. JD, which operates its own logistics network, first sends order parcels from its warehouses to delivery stations, where the drones pick them up and send them to villages for distribution.

BUSINESS NEWS

PPG Chief Makes Noise in Akzo Hunt

BY ANDREW TANGEL

Michael McGarry gets excited about paint drying. After all, that is his job as the leader of a paint-and-coatings giant that prizes staying under the radar.

"We don't need to see ourselves in the newspaper," said the chief executive and chairman of **PPG Industries** Inc. in a recent interview. "This is not our style."

Now, though, Mr. McGarry is at the center of what could be one of the biggest and riskiest corporate takeover battles in recent memory—a cross-border pursuit of Dutch rival **Akzo Nobel** NV.

In the past two months, he has made three separate offers, ultimately valuing the Dutch company at up to approximately \$27 billion, only to be rejected publicly each time.

After the last brushoff two weeks ago, Mr. McGarry said he was considering whether to go around the company's board and management, in-

cluding Akzo Chief Executive Ton Büchner, and take his pitch directly to shareholders.

The generally quiet paint industry is an unlikely source of high-stakes corporate drama. And Mr. McGarry, a 59-year-old described by one colleague as a Southern gentleman, might seem an unlikely figure to lead what could be a bruising fight. But the ingredients have been long in the

making as the industry undergoes consolidation. PPG rival **Sherwin-Williams** Co. is in the final stages of a \$9 billion acquisition of **Valspar** Corp.

A deal involving Akzo brings with it unique challenges. Dutch laws make a hostile takeover difficult and some observers view the potential bid as a long shot. Anti-trust regulators may force the combined company to sell off businesses.

Even if Mr. McGarry is victorious, combining the companies would be risky. The latest offer by Pittsburgh-based PPG for Akzo—\$27 billion, approximately equal to PPG's own market capitalization—could carry expectations to cut costs

that the combined company would struggle to meet, said Dmitry Silversteyn, an analyst at Longbow Research in Cleveland.

A court hearing was scheduled for Monday, in an activist investor's bid to force Akzo to hold a special shareholder meeting, could influence PPG's decision on whether to pursue a hostile takeover. If Mr. Mc-

Garry decides to pursue such a bid, he would have to do so by a June 1 regulatory deadline or wait at least six months under Dutch rules.

Mr. McGarry argues joining forces would help save the combined companies \$750 million in costs, strengthen their global foothold and boost organic growth amid sluggish demand in some markets and

rising materials costs, a position supported by some analysts who back the deal.

He said he is approaching the Akzo deal like other acquisitions he helped orchestrate, despite its far greater size. He was a behind-the-scenes point person in PPG's 2008 acquisition of Dutch coatings maker SigmaKalon Group for \$3 billion, still the largest ever for the company.

In 2014, the company paid \$2.3 billion for Mexican paint company Consorcio Comex SA. PPG bought Akzo's North American paint business that year for \$1 billion.

"We're always going to be measured in the way we do it," he said, referring to acquisitions. "We're not going to be radical."

Early in his career, Mr. McGarry became interested in running businesses and understanding how things worked. He worked as a mechanic at a bowling alley while he was growing up in New Orleans. After studying mechanical engineering at the University of Texas at Austin, his first job in 1981 was at a PPG plant in



Michael McGarry is an unlikely figure to be at the center of a takeover fight. He says the deal would trim \$750 million in costs.

Lake Charles, La. He has been at the company ever since.

Still a regular league bowler in Pittsburgh, Mr. McGarry maintains what colleagues describe as a common touch. He is known for getting to know customers, from house painters to auto-industry executives. Colleagues describe Mr. McGarry as a methodical manager who carefully studies decisions and their potential outcomes. "He's a smart risk taker—he's not reckless," said Hugh Grant, PPG's lead director.

"He's much more calculated than that."

In the Akzo battle, Mr. McGarry also has help from U.S. activist investor **Elliott Management** Corp., which wants to strong-arm Akzo into sale talks with PPG.

Elliott was the party asking the Dutch court to force Akzo to hold a special shareholder meeting, which also seeks to remove the supervisory board chairman. Akzo has defended itself and questioned how dismissing the company's supervisory chairman would benefit stakeholders.

BUSINESS WATCH

CATHAY PACIFIC

Airline to Lay Off About 600 Workers

Cathay Pacific Airways Ltd. said it would lay off about 600 people as it grapples with tough competition and bad bets on oil prices, despite robust travel demand in the region.

The cuts, announced Monday as part of a broader restructuring, are Cathay's largest in 20 years. In March, the Hong Kong-based carrier posted its first annual loss in eight years and embarked on a series of cost-saving measures.

Cathay said it would cut about 190 managers and 400 nonmanagerial jobs, representing 25% and 18% of each category, respectively. No pilots or cabin crew will be affected, it said, and the restructuring will be completed by the end of the year.

—Joanne Chiu

AIRBUS

Firm Seeks Outside Review Amid Probes

Airbus SE has established a new compliance review group led by outsiders amid allegations of corruption being investigated by British and other fraud watchdogs.

It is the second time in less than five years that the European plane maker has sought outside help to clean up its internal processes after fraud allegations surfaced. Some of the issues that led to the compliance review in 2012 are still under scrutiny, including the company's actions in a deal worth more than \$1 billion to sell Eurofighter Typhoon combat jets to Austria a decade earlier.

The panel, which will report to Chief Executive Tom Enders and the board, will have an open-ended advisory role.

Airbus has denied wrongdoing and said it was cooperating with authorities.

An Airbus official said the company wasn't asked to take the action but was trying to demonstrate it is taking tangible steps to improve ethics performance.

—Robert Wall

BOX OFFICE

Latest 'Alien' Movie Debuts at No. 1

Ridley Scott's "Alien" series came down to Earth at the box office this past weekend, with the latest installment opening to a so-so \$36 million, according to preliminary estimates.

That was enough for "Alien:

"Covenant" to eke out a first-place finish. The new release barely bested **Walt Disney** Co. holdover "Guardians of the Galaxy," which added \$35.1 million for a three-week total of \$301.8 million.

"Everything, Everything," an inexpensive young-adult romance from **Time Warner** Inc.'s

Warner Bros. and **Metro-Goldwyn-Mayer** Studios, opened a fine \$12 million in third place.

Overseas returns for "Alien"

have brought its world-wide box office to \$117.8 million. "Alien"

has been approved for release in China, the world's second-largest box-office market behind the U.S., on June 16. Some of the R-rated movie's most violent scenes were cut for approval by Chinese state censors.

—Erich Schwartzel



Cathay expects to complete the restructuring by the end of 2017.

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China A-Share Fund Cls A GBP USD OT HKG 05/19 GBP 13.85 10.4 21.6 -2.9

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China Greenchip-A Units AS EQ CYM 05/19 HKD 10.39 18.7 30.5 -7.8

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China Greenchip-A Units EUR H AS EQ CYM 05/19 EUR 10.49 18.9 31.9 -7.5

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THE WALL STREET JOURNAL.

Tuesday, May 23, 2017 | B5

Japan's Abe Talks Trump

How the prime minister views the way forward

Japan has seen an economic revival in recent years. But now it faces an uncertain world, as North Korea makes increasingly aggressive moves and the mood in the U.S. turns against free-trade deals.

To assess the progress Japan has made and look ahead, The Wall Street Journal's Gerard Baker sat down with the prime minister of Japan, Shinzo Abe, who spoke through a translator. Edited excerpts follow.

The path of progress

MR. ABE: It has been more than four years since I retook the government. Japan before that was enveloped in a mood of pessimism, a sense of resignation. The economy was in deflation. I promised to bring Japan back. What have the results been?

During the past four years, through our economic policies, nominal GDP has grown by 9.5%. Employment, which decreased by 290,000 jobs in the previous administration, rose by 1.85 million during these



RON KREMER/DOW JONES (2)

four years. The unemployment rate is at 2.8%, almost full employment. Wage levels will rise and the exit from deflation will draw nearer.

My policy is to put the economy first, to exit from deflation and to keep pursuing the three arrows of monetary, fiscal and structural reform to those ends. This policy is absolutely unchanged. Economic growth in Japan and a stable livelihood for our people cannot be realized unless we co-

operate and collaborate with the global economy.

Ensuring peace and security is the foundation for this. To that end, my consistent position is to strengthen the Japan-U.S. alliance and to broaden the range of diplomacy with nations of the Asia-Pacific. Last month, Vice President Pence and Deputy Prime Minister Aso held the first Japan-U.S. economic dialogue and agreed to continue consultation on common strategy on trade and investment rules and issues.

Of course, we cannot allow ourselves to let down our guard. Despite strong warnings by the international community, North Korea once again has pushed ahead with the launch of a ballistic missile. The threat from North Korea has risen one step further. Terrorism is spreading across the world. We shall have to maintain our alert and reinforce global collaboration in an unprecedented way. Without peace and stability, there can be no growth or prosperity.

Talking with Trump

MR. BAKER: You've had a chance to meet twice with President Trump since he was

elected. By all accounts you struck up a good relationship, and you've talked about the importance of the U.S.-Japan relationship. But you weren't able to persuade him to back off his campaign promise to withdraw the U.S. from the Trans-Pacific Partnership. And he's spoken very critically about TPP, indeed about international trade arrangements with other countries.

Japan still has a very, very large trade surplus with the United States. Are you confident that you can get a constructive trading relationship with the United States?

MR. ABE: I am convinced that economic cooperation can be expanded between Japan and the United States and that we can build a win-win relationship. I explained to him the current status of Japan-U.S. trade. For example, in the past there was trade friction between Japan and the U.S. in the automotive industry. But now Japanese companies are building factories in the U.S., ensuring many jobs in the U.S. and contributing to the development of the U.S. economy. Or to take another example, you won't find cases of us expanding market share by selling cheaply when currencies

fluctuate. I explained to President Trump that the trade and economic environment between Japan and the U.S. has greatly changed in this way, and he understood me well. We agreed that Japan and the U.S. should work toward free and fair rules.

MR. BAKER: Is there a possibility for a bilateral U.S.-Japan free-trade agreement at some time in the Trump administration?

MR. ABE: We need to discuss what is best, keeping various options in mind. I fully acknowledge President Trump's position on multilateral arrangements. But I have explained many times to him why it matters to create free and fair rules in a multilateral setting given the supply chains that exist today. President Trump listened earnestly, without any expression of annoyance.

MR. BAKER: There's a lot of concern that the U.S. may not be as engaged in these important Asian economic and security conversations as its traditional allies, Japan perhaps most of all, would like it to be.

MR. ABE: Since the Trump ad-

ministration began, I think the commitment to the security of Northeast Asia has in a sense strengthened. For example, in the case of North Korea, the Trump administration is truly tackling the situation seriously.

MR. BAKER: In the last three years, North Korea has tested more missiles than it had in the previous 30 years. The U.S. seems to be still relying on China to exert pressure on North Korea. Is the approach through China the most effective way to get North Korea to back off this increasingly aggressive posture?

MR. ABE: Already Japan, the United States and many other countries impose economic sanctions on North Korea through United Nations resolutions. Today, it is said that China accounts for more than 80% of overall trade with North Korea. I believe that China, by playing its role properly, can change North Korea's policies. If a nuclear test is conducted, we will need additional economic sanctions. We will have to pursue further U.N. resolutions. On this count as well, China should properly take action and China should understand fully.

MR. BAKER: There's a lot of concern that the U.S. may not be as engaged in these important Asian economic and security conversations as its traditional allies, Japan perhaps most of all, would like it to be.

MR. ABE: Since the Trump ad-

How Japanese feel about some aspects of global engagement

In matters of foreign policy, Japan should...

Take into account the interests of its allies, even if it means making compromises

48%

Follow its own national interests, even when its allies strongly disagree

40%

Neither/both equally

4%

Don't know/didn't answer

9%

Japan's involvement in the global economy is...

A good thing because it provides the country with new markets and opportunities for growth

58%

A bad thing because it lowers wages and costs jobs in Japan

32%

Neither

2%

Don't know/didn't answer

9%

Source: Pew Research Center survey of 1,000 adults in Japan, conducted April 26 to May 29, 2016

THE WALL STREET JOURNAL.

The Banker's Viewpoint

Haruhiko Kuroda on economic inequality, protectionism and monetary policy

Monetary policy can stymie or enhance free trade and global economic growth. And one of the biggest influencers of monetary policy in the world is the Bank of Japan. Gerard Baker, editor in chief of The Wall Street Journal, sat down with the bank's current governor, Haruhiko Kuroda, to discuss the populist backlash against globalization, the rise of economic nationalism, and the economic health of the world. Edited excerpts of their discussion follow.

MR. BAKER: Governor, you just got back from a G-7 finance ministers and central bank governors meeting in Bari, Italy. Economists such as yourself have argued for a very long time that global economic integration and cooperation has been very good for global growth and has lifted incomes, particularly in parts of the world like Asia. If we're going to see a revival of economic nationalism, a rolling back of economic integration, what does that mean for the economy, Japan's economy in particular?

MR. KURODA: In Italy we discussed economic growth and inequality. This is a very topical agenda faced by many countries, including G-7 countries, and we agree that free trade actually contributed to reducing global inequality.

But at the same time, it is true that in the last couple of decades, inequality within each country has increased. We discussed how to address this issue in each country. Now, protectionism, I don't think it will contribute to reducing inequality. Trade restriction would decelerate

global trade, and that would dampen global growth. Without growth, living standards cannot be raised. I think it is well understood that free trade is key for global growth and continued improvement of living standards of the people.

At the same time, in the last couple of decades, a very defined, delicate, intertwined global supply chain has developed, not just in Asia, but in the Western Hemisphere as well as Europe. And without this extensive supply chain, any economy cannot prosper.

If any country introduced a protectionist measure, that would hurt that country and hurt the world economy. So I don't think that protectionists are likely to prevail in the world.

MR. BAKER: To be fair, the critics—especially people like Donald Trump—say they're not protectionists. They want to encourage trade. What they argue is that the trade deals over the past 20 years, many of them—the World Trade Organization, the North American Free Trade Agreement—have been unfair, because they haven't been genuinely free-trade deals. Countries have been able to exploit opportunities. China in particular, Japan is also criticized in this way. Whereas the U.S. in particular runs a massive trade deficit and has seen a lot of manufacturing jobs disappear.

So people are arguing that trade itself is maybe not the problem. It's actually unfair trade and the fact that some countries give themselves unfair advantages. How do you address that?

MR. KURODA: There are many

detailed economic analyses already made by trade economists and they show that the WTO round of negotiations to improve free trade in the world actually haven't resulted in any major negative impact on the U.S. economy.

But some economists argue that after China joined the WTO, China expanded its global trade, and, in some countries, a too-rapid expansion of Chinese exports to their economies might have had some negative impact.

But, that said, I really don't think WTO has created the huge problems. In general, I think free trade has contributed. And I don't think any particular economy has made a negative impact on the U.S. economy.

MR. BAKER: In the past six months, there has been significantly increased optimism about the U.S. economy in particular. The stock market has done extremely well. There are expectations of much stronger growth on the back of a tax cut, and maybe infrastructure spending and various other things associated with deregulation and the Trump administration. That seems to have helped the background for the Federal Reserve, which has been tightening policy and looks like it's going to be tightening possibly further.

Where does that leave the rest of the world and, in particular, Japan?

MR. KURODA: Actually, the world economy, including the U.S. economy, started to recover from the bottom by the middle of last year—well before the U.S. presidential election. I agree that the market

has anticipated that under the new administration more aggressive economic policies would be implemented so that the U.S. economy could grow faster. That also means interest rates might rise faster than expected before. That might also have implications for exchange rates.

But if you carefully look at those market data, interest rates and the dollar haven't risen so much.

MR. BAKER: Not since that initial rise—

MR. KURODA: That's right.

MR. BAKER:—in November.

MR. KURODA: The Federal Reserve would normalize its monetary policy in view of a very strong U.S. economic outlook, this year, next year, and that would be good not just for the U.S. economy but for the world economy. So I'm not very much concerned. Because that reflects a strong economic recovery.

On the other hand, Europe and Japan are lagging behind. The Japanese economy is growing by about 1.5% now, and is expected to continue to grow like that. Our inflation rate is still quite low. So our

monetary policy is targeted at price development. That is to say to achieve the 2% price-stability target at the earliest possible time.

MR. BAKER: You've had this target for a long time now.

Admittedly, you're out of deflation. But wage growth seems very weak, despite this incredibly aggressive monetary policy that you've been pursuing, keeping 10-year yields at zero and short yields just a little bit above that.

Does the Bank of Japan need to do even more?

MR. KURODA: After we intro-

duced quantitative monetary easing in April 2013, the unemployment rate reduced to the order of less than 3%, and the corporate sector enjoys a historic high level of profit. The economy is growing well above its potential. As you said, wages and prices appear somewhat slow to respond to this substantial improvement. But now I think wages are responding.

MR. BAKER: So you're comfortable with the current approach?

MR. KURODA: That's right. We introduced last September a

slightly changed monetary policy framework.

But the main target is to maintain low long-term interest rates, which would be conducive to economic growth and eventually attaining that 2% price target. We expect that sometime in fiscal 2018 we would be able to reach around 2% inflation.

INSIDE

Long Yongtu and **Charlene Barshefsky** dissect the impact of China joining the World Trade Organization

B6

Kurt Campbell says increased financial sanctions may be the best way to deal with the rising threat from North Korea

B6

Carlos Ghosn sees the rise of nationalism as a call to action in defense of globalization

B9

Plus: **Bilahari Kausikan** says North Korea can be deterred

B9

JOURNAL REPORT | CEO COUNCIL: ASIA

The Impact of China Joining the WTO

Charlene Barshefsky and Long Yongtu say there are misconceptions about the effect of the country's entry on both China and the U.S.

China's entry into the World Trade Organization in 2001 was the beginning of a new era of globalization. But now there's a popular backlash against globalization in the West. What happened? And what comes next?

The Wall Street Journal's Andrew Browne spoke with two of the central actors in the WTO drama, Charlene Barshefsky, trade representative under President Bill Clinton, and Long Yongtu, China's vice minister of commerce from 1997 to 2003. Edited excerpts follow.

Globalization's effects

MR. BROWNE: Steve Bannon, the senior White House adviser, says globalists gutted the American working classes and created a middle class in Asia. And he's right, isn't he?

MS. BARSHEFSKY: No, I don't think he's right. If you go back to the mid-1990s, you saw a China that was already growing at about 8%, 8.5% a year, with the world's largest standing army, a nuclear power, a permanent member of the U.N. Security Council, a fifth of the world's population, a reformist premier, Zhu Rongji, and willing to orient toward the West.

In the course of doing the WTO negotiation, China opened its market. The U.S. didn't alter its trade regime, nor did any other country alter its trade regime. As in any WTO negotiation, it is the acceding country that needs to reform its economy.

The key point is that, in the context of a country as large as China entering, were there protections built into the agreement to prevent, for ex-

ample, unexpected surges of imports? And indeed, there were—a mechanism almost never used by the very industries Steve Bannon is pointing to, although it would've been entirely protective of their interests.

MR. BROWNE: The U.S. had a trade deficit of something like \$80 billion in 2000. And within a decade, it is tripled. What did you get wrong?

MS. BARSHEFSKY: Remember that we have a substantial services surplus with China. That's point one. Second point is that the trade deficit is a function of macroeconomic factors. Principally, the difference between what Americans save, which is nada, and investment, which is plentiful. Americans could save more. The deficit would go down.

We could discourage inward investment. The deficit would go down. I can't imagine why we would discourage inward investment. What does have to be fixed is a China that has stopped the process of economic reform and opening and that, instead, has put in place a spate of measures that are zero sum. They're highly mercantilist and discriminate against U.S. and foreign companies. That's what has to be fixed.

The path of reform

MR. BROWNE: Minister Long, can you take us back to the years leading up to China's accession to the WTO? There was huge resistance from conservatives within the Chinese system to opening up.

MR. LONG: The benefit of the WTO agreement for China

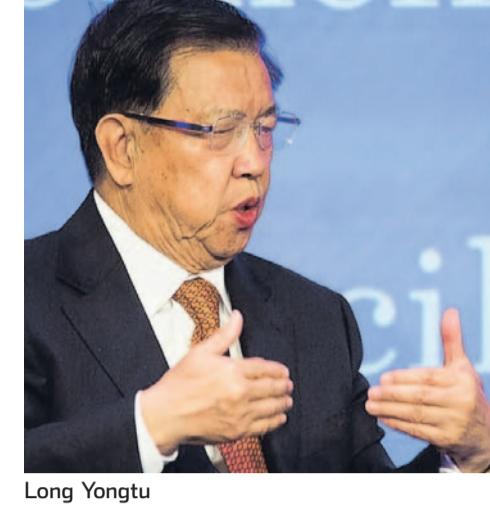
isn't that China increases its trade. The most important thing is that the trade agreement triggered and accelerated internal domestic reform. At the time, all the Chinese import-exports were monopolized by a few dozen state-owned trading companies and ministries. But once we accepted the terms of liberalizing, then tens of thousands, hundreds of thousands of Chinese enterprises start getting into the business of import-export. You can trade directly with Americans, with Europeans, with all these Asians. So that gave a great acceleration of the trade volume of Chinese import-export.

MR. BROWNE: One of the central complaints from the Trump administration has been that China manipulates its currency. They're wrong in the sense that China hasn't manipulated for some years. But they were right in the sense that, for some years after WTO accession, China artificially kept the value of its currency low to boost exports. Was that the plan all along?

MR. LONG: I do not believe that. The trade terms give a free hand to Chinese companies to compete with the rest of the world. Other countries are facing very, very strong competition from their Chinese counterparts. I think this is their problem.

MR. BROWNE: Bill Clinton suggested that China's accession to the WTO was the start of a period of liberalization, that the country would become more open, more transparent, more rules-based. What hap-

pens is that WTO accession marked the high-water mark of liberalization in China. What happened?



Long Yongtu



Charlene Barshefsky

there are 200 million Chinese in the middle class. We can hardly make any serious mistakes to upset the growth.

Second, before China's WTO accession, we were short of laws and rules in many places, so senior officials would make a decision: "Yes, this we can do." But now, you have to see whether the decision is inconsistent with laws and rules. And people say, "No, this reform measure isn't inconsistent with laws."

With the internet also, people are getting so many different views. That gives a lot of pressure to allow reform measures.

I think the Chinese leadership is still very determined to push for economic reform. But we have to ensure it will benefit most of the people. It isn't reform for reform's purpose.

On the question of job loss, there is no question that trade is, in part, responsible for job loss in the United States, but a tiny fraction relative to automation and innovation in the U.S. When people lose their jobs, either for trade or for technology but no fault of their own, the United States has an obligation to undertake programs that assist them.

A stalled reform?

MR. BROWNE: Minister Long, do you agree with Ambassador Barshefsky's contention that reform in China has sputtered out or is sputtering?

MR. LONG: I don't believe that economic reform in China has been stopped or slowed down. For instance, the size of the economy of China is now eight times larger than the time that China acceded to WTO. And

we do well in Asia. One of them is our security commitments. And we've got to be able to signal that we are prepared to take the necessary steps to defend South Korea in the event of an attack or threats from the North.

MR. SEIB: Which is the better approach right now, confrontation or attempted engagement?

MR. CAMPBELL: Honestly, I think that's simplistic. What you try to do in a situation like this, first of all, is you keep your allies together. You make sure that there's no defecting, no going off and, "I'm gonna cut my own deal with the North Koreans." That has been very effective.

Our deterrent capabilities on the Korean Peninsula are remarkable. Twenty-five years ago, if there was a conflict on the Korean Peninsula, you had worries about how it would end up. Now, there can be no doubt. It will end with rubble in the North, right? That's still unacceptable, but our capabilities are enormous.

Third, we have tried diplomacy numerous times. I was involved in some of those efforts. These are the most difficult people in the world to negotiate with. But we have to continue to leave that door open.

The problem is that all the agreements that the North Koreans have made with the outside world, they have violated.

Sense of impatience

MR. SEIB: You mentioned that against all odds President Trump and Chinese President Xi seem to have developed a good rapport. What are the implications of that?

MR. CAMPBELL: I don't think the president has fundamentally settled on how he views the relationship with China, but I will tell you that the personal diplomacy was quite effective. And I think President Xi laid out a game plan. "We're going to work with you on economic issues." We'll see how it plays out. This is a long game. And what is so interesting about the Trump administration, I think the sense of impatience is remarkable. The Asians can sense it.

MR. SEIB: But is that a good thing or a bad thing, a sense of impatience?

MR. CAMPBELL: For longer-term deals, probably not such a good thing. It suggests that you're ready to settle quickly, and you don't understand the issues. Given the options, I think it's terrific that President Xi and President Trump appeared to hit it off. But the key is going to be how it plays out. There have to be lower-level people who really work the machinery of the U.S.-China relationship. And to date, we just don't have those kind of midlevel officials that are responsible for sort of manning the decks of the U.S. relationships in Asia.

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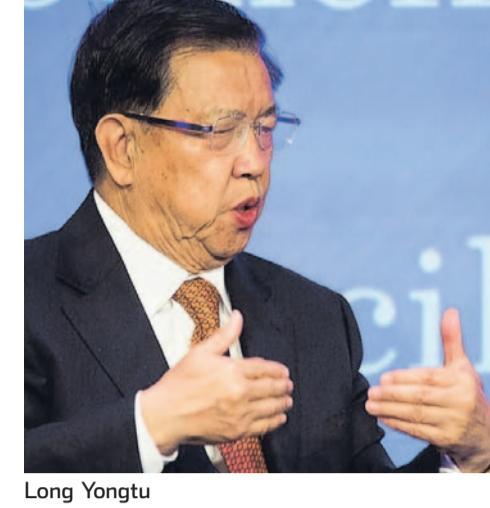
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Long Yongtu



Charlene Barshefsky

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MS. BARSHEFSKY: First of all, it can't be U.S. policy that poor countries should remain poor because that is somehow advantageous to the United States. And it can't be U.S. policy that we should discourage poor countries from reforming and making their market more attractive for fear that the U.S. can't compete with low-wage countries.

So what happens when poor countries become more attractive venues? No. 1, trade flows increase, which is clearly the case. The question for the United States is, how do we maintain our competitiveness, recognizing that trade flows do increase aggregate GDP?

MR. LONG: I don't believe that economic reform in China has been stopped or slowed down. For instance, the size of the economy of China is now eight times larger than the time that China acceded to WTO. And

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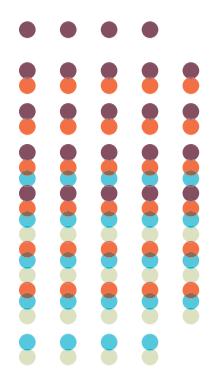


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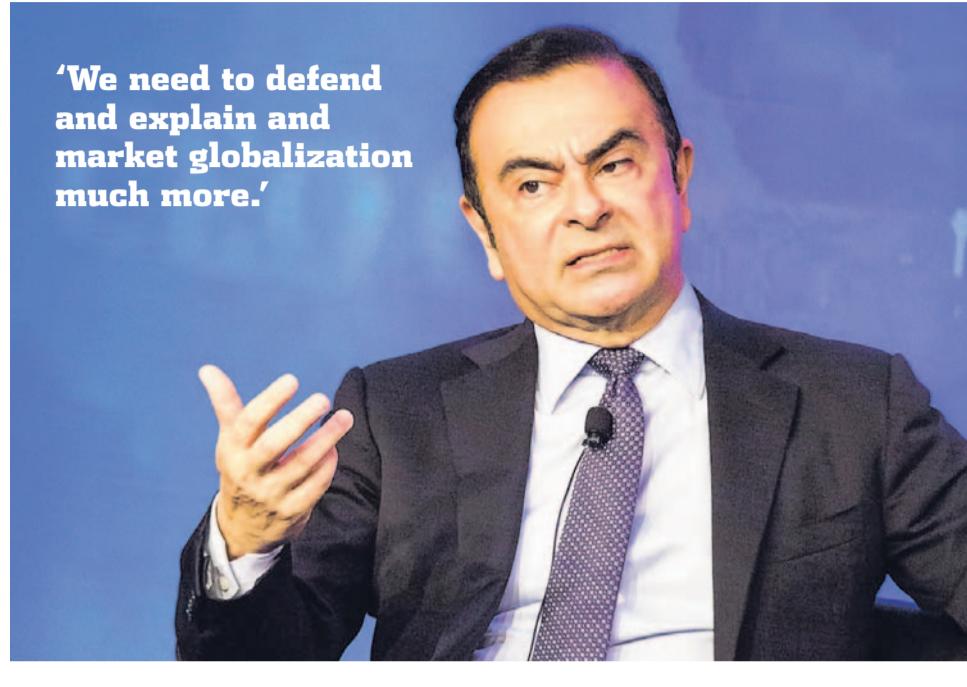
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JOURNAL REPORT | CEO COUNCIL: ASIA

In Defense of Globalization

Carlos Ghosn says the rise of nationalism is a call to action



ARON KREMER/DOW JONES (2)

The Renault-Nissan Alliance, a pairing of French and Japanese automotive giants Renault SA and Nissan Motor Co., has long been in the vanguard of companies pushing for more open markets globally. But, as voters in several recent elections have shown, there is significant public displeasure with some of the more local effects of globalization, including unemployment and a sense of diminished sovereignty.

Carlos Ghosn, chairman and chief executive of the alliance, sat down to talk with Peter Landers, Tokyo bureau chief of The Wall Street Journal, and John Bussey, associate editor of The Wall Street Journal, about how the recent pushback against globalization could affect the ability of companies to reach across borders. Edited excerpts of the interview follow.

MR. LANDERS: You were born in Brazil, educated in France in Lebanon, went to university in France, had business success at Michelin in the U.S.

And you've been involved with Japan, very extensively, for 18 years. When people question the value of globalization, when they say trade is bad for their country, what does that mean for you personally?

MR. GHOSN: I think it's a call for action. When you try to look at the facts about what globalization has brought to humankind in general, it's very difficult to contest the fact that it has been a very good trend. Obviously, it has not been perfect. It hasn't been very good for every single entity everywhere. And it has also had some excesses, maybe not due to globalization but generated by globalization.

I think it's a call to answer, to try to understand why we have this pushback in some countries, why people don't understand, and what are the corrections we need to bring or clarify.

Because without any doubt, this trend is going to continue. Look at the young generation, at people's aspirations. They all want to continue, one way or the other, in some kind of

globalization. We need to defend and explain and market globalization much more. We assume it's so obvious that everybody's going to understand these benefits. But we have been wrong in many cases, and cases which are surprising. Because today, we are in an interesting situation, where globalization seems to be more defended in emerging countries and emerging economies and has more resistance in some of the developed countries.

MR. LANDERS: What's the marketing slogan? What's the pitch?

MR. GHOSN: The big difference between businesspeople and other categories of people is that we look at scorecards. And a lasting, positive scorecard cannot be generated by something bad. Frankly, when you look at globalization, the scorecard is absolutely tremendous. If you look at what happened from China to India to Russia to Brazil to what will happen, we think, to Africa, what's happening in Southeast

Asia, it's hard to say, "Well, this scorecard is questionable." It's not questionable.

Now, it may be questioned by some people. It may be questionable in some categories. But it's up to us to defend, based on the scorecard, the fact that this is something good, recognizing, again, the excesses, some of the shortfalls, and accepting the fact that it's not going to be linear. You're going to have some inflections, and we need to help the correction of the inflection.

MR. LANDERS: What is your company's view of the U.K. after Brexit?

MR. GHOSN: It's a good question, except that nobody knows what is after Brexit. We are businesspeople. We can't assume. We need to judge based on indexes, facts—things which are solid. Because we're talking about massive investments. In our case, it's thousands of people employed in the U.K.

MR. LANDERS: You decided to make a new model of the Qashqai in Sunderland, England.

MR. GHOSN: As a car manufacturer, we have a cycle. A car lasts five to six years on the

market and then you bring a new car. So every six years you have investments to be made. And if you have three or four cars in the plant, every one or two years.

So for the moment, we said, "We have no reason to change our policy," knowing that we don't know what is after Brexit. That's why we have decided to maintain the status quo in Sunderland, at the same time, explaining to the U.K. government that there are a lot of things at stake.

We are not engaging in any political discussion. The only thing we worry about is the fact that this is a European plant based in the U.K. We care about its competitiveness. As long as we all agree on the fact that, no matter what is the solution after Brexit, it preserves the competitiveness of the industrial investments in the U.K., we are fine.

MR. BUSSEY: Given the voter pushback on globalization recently in some countries—a reversal to a bit of nationalism—if this had been the situation back when you formed the Renault-Nissan alliance, would you still feel comfortable going ahead with this cross-border alliance?

MR. GHOSN: I would not change anything. I don't think this is the end of globalization. I think there are some corrections taking place. But I wouldn't change anything. Ten years ago, I said, "The key of success of the alliance is make two things at the same time:

respect for identities, and, at the same time, going for a global market, which means developing synergies." You have to do both. If you miss one of them, you're doomed.

Today, what's needed is more cultivating and respecting the identities existing in the world for this to be a good pillar for the development of globalization. Globalization is always at risk when people's identities are felt as being at risk.

MR. BUSSEY: How do you make sure the factory workers feel that they're part of not just a global company, but of a national enterprise?

MR. GHOSN: People down the line, the people in the plants or people on the sales force, they identify through their brand. They identify to their team. For them, the headquarters are something which is very fictional. They identify to their plant.

For example, we are the major shareholder of [Russian auto maker] AvtoVAZ, with the Lada brand. The people in AvtoVAZ working in Tolyatti, they know they work for Lada. They don't work for Renault. And their management, as much as possible, is Russian. We are still the major brand in Russia. We are not trying to compete against our own brand. We say, "Lada is the main brand in Russia. And we're going to defend it." So even the project we have as an alliance is something which sticks with identity.

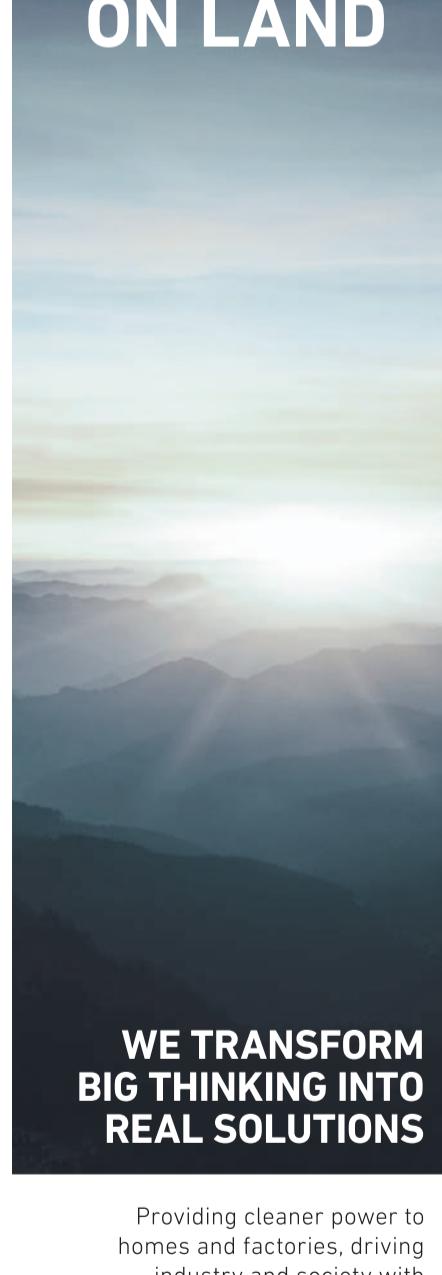
VOICES FROM THE CONFERENCE



"North Korea is very bad. But it is not mad. It is a rational country. Therefore, it can be deterred....While it is bound to become a nuclear weapon state, and that will precipitate a rethinking of options in all Northeast Asia, it is not necessarily going to be a less stable Northeast Asia at the end of the day. You can deter North Korea because it—what does it essentially want? It wants, the regime wants, to survive."

Bilahari Kausikan, Ambassador-at-Large, Ministry of Foreign Affairs, Singapore

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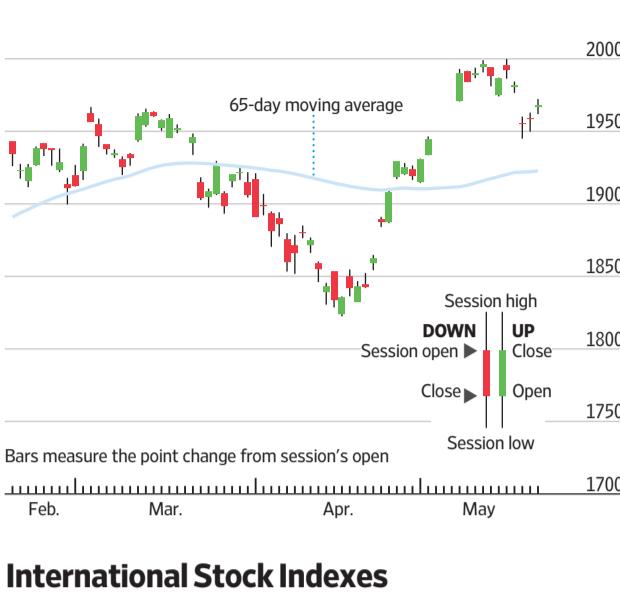
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All-time high

▲ 2.95%
19961.55 14952.02
38915.87 12/29/89



Bars measure the point change from session's open

STOXX 600 Index

391.14 ▼ 0.37, or 0.09%

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

Year-to-date
52-wk high/low
All-time high

▲ 8.22%
396.45 308.75
414.06 4/15/15



S&P 500 Index

2391.13 ▲ 9.40, or 0.39%

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

Data as of 12 p.m. New York time
Last Year ago
Trailing P/E ratio 23.44 23.49
P/E estimate * 18.41 17.51
Dividend yield 1.98 2.20
All-time high: 2402.32, 05/15/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

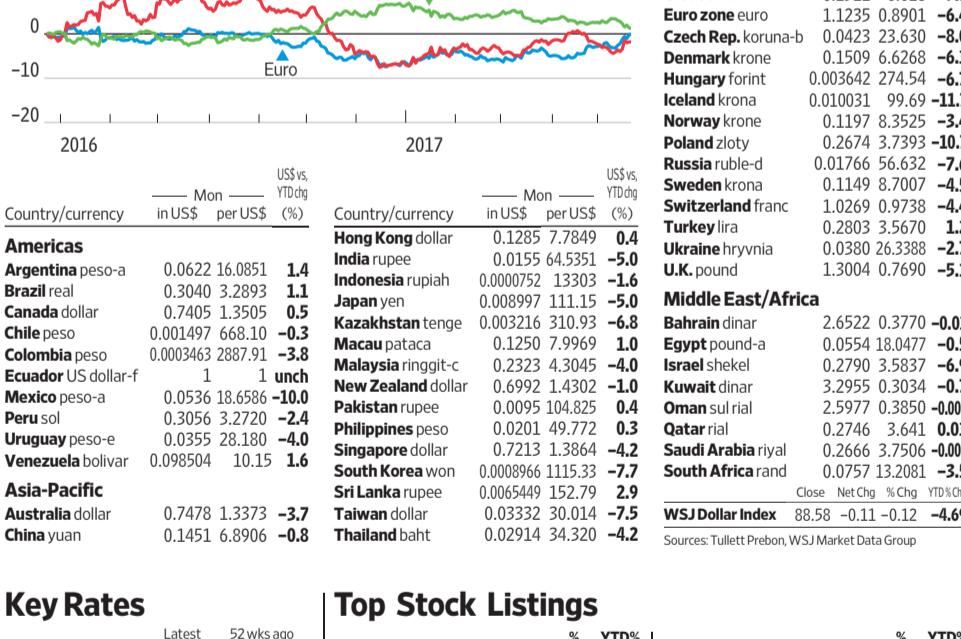
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2758.65	10.32	▲ 0.38	2193.75	● 2769.38	9.1		
	MSCI EAFE	1891.75	9.00	▲ 0.48	1471.88	● 1956.39	10.2		
	MSCI EM USD	1003.75	8.08	▲ 0.81	691.21	● 1044.05	26.4		
Americas	DJ Americas	574.16	2.07	▲ 0.36	480.90	● 578.17	6.3		
Brazil	Sao Paulo Bovespa	61205.71	-1433.59	-2.29	48066.67	● 69487.58	1.6		
Canada	S&P/TSX Comp	15458.46	...	Closed	13609.58	● 15943.09	1.1		
Mexico	IPC All-Share	49041.62	-25.85	-0.05	43902.25	● 50154.33	7.4		
Chile	Santiago IPSA	3639.61	-21.96	-0.60	2998.64	● 3786.05	12.9		
U.S.	DJIA	20882.63	77.79	▲ 0.37	17063.08	● 21169.11	5.7		
	Nasdaq Composite	6120.38	36.68	▲ 0.60	4574.25	● 6170.16	13.7		
	S&P 500	2391.13	9.40	▲ 0.39	1991.68	● 2405.77	6.8		
	CBOE Volatility	11.53	-0.51	-4.24	9.56	● 26.72	-17.9		
EMEA	Stoxx Europe 600	391.14	-0.37	-0.09	308.75	● 396.45	8.2		
	Stoxx Europe 50	3232.29	-3.63	-0.11	2626.52	● 3279.71	7.4		
France	CAC 40	5322.88	-1.52	-0.03	3955.98	● 5442.10	9.5		
Germany	DAX	12619.46	-19.23	-0.15	9214.10	● 12841.66	9.9		
Israel	Tel Aviv	1421.59	-0.89	-0.06	1372.23	● 1490.23	-3.3		
Italy	FTSE MIB	21318.58	-248.94	-1.15	15017.42	● 21828.77	10.8		
Netherlands	AEX	527.85	0.93	▲ 0.18	409.23	● 537.84	9.2		
Russia	RTS Index	1083.58	-4.17	-0.38	873.58	● 1196.99	-6.0		
Spain	IBEX 35	10793.40	-42.00	-0.39	7579.80	● 11184.40	15.4		
Switzerland	Swiss Market	9084.78	62.27	▲ 0.69	7475.54	● 9136.95	10.5		
South Africa	Johannesburg All Share	54517.06	89.76	▲ 0.16	48935.90	● 54704.22	7.6		
Turkey	BIST 100	96400.03	1252.69	▲ 1.32	70426.16	● 96229.15	23.4		
U.K.	FTSE 100	7496.34	25.63	▲ 0.34	5788.74	● 7533.70	4.9		
Asia-Pacific	DJ Asia-Pacific TSM	1600.32	14.25	▲ 0.90	1308.52	● 1601.62	12.5		
Australia	S&P/ASX 200	5771.20	43.80	▲ 0.76	5103.30	● 5956.50	1.9		
China	Shanghai Composite	3075.68	-14.96	-0.48	2815.09	● 3288.97	-0.9		
Hong Kong	Hang Seng	25391.34	216.47	▲ 0.86	19809.03	● 25391.34	15.4		
India	S&P BSE Sensex	30570.97	106.05	▲ 0.35	25230.36	● 30658.77	14.8		
Indonesia	Jakarta Composite	5749.45	-42.44	-0.73	4710.79	● 5791.88	8.5		
Japan	Nikkei Stock Avg	19678.28	87.52	▲ 0.45	14952.02	● 19961.55	3.0		
Malaysia	Kuala Lumpur Composite	1774.95	6.67	▲ 0.38	1614.90	● 1778.65	8.1		
New Zealand	S&P/NZX 50	7409.50	17.39	▲ 0.24	6664.21	● 7571.11	7.7		
Pakistan	KSE 100	51373.51	631.48	▲ 1.24	36061.56	● 52387.87	7.5		
Philippines	PSEI	7806.57	38.95	▲ 0.50	6563.67	● 8102.30	14.1		
Singapore	Straits Times	3213.57	-3.35	-0.10	2729.85	● 3271.11	11.6		
South Korea	Kospi	2304.03	15.55	▲ 0.68	1925.24	● 2304.03	13.7		
Taiwan	Weighted	9997.26	49.64	▲ 0.50	8300.66	● 10036.82	8.0		
Thailand	SET	1557.73	8.09	▲ 0.52	1381.69	● 1591.00	1.0		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



Key Rates

Latest 52 wks ago

Cur/currency	Mon. in US\$	per US\$ (%)	US\$ vs. Mon. in US\$	per US\$ (%)
Americas				
Argentina peso-a	0.0622	16.0851	▲ 1.4	
Brazil real	0.3040	3.2893	▲ 1.1	
Canada dollar	0.7405	1.3505	▲ 0.5	
Chile peso	0.001497	668.10	-0.3	
Peru so	0.3056	3.2720	-2.4	
Uruguay peso-e	0.0355	28.180	-4.0	
Venezuela bolivar	0.098504	10.15	▲ 1.6	
Asia-Pacific				
Australia dollar	0.7478	1.3373	-3.7	
China yuan	0.1451	6.8906	-0.8	

Offer Bid

Country/currency	Mon. in US\$	per US\$ (%)	US\$ vs. Mon. in US\$	per US\$ (%)

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FINANCE & MARKETS

Citigroup, Nasdaq Team on Blockchain

Objective is to link bank's business payments with exchange's platform.

BY TELIS DEMOS

Citigroup Inc. and **Nasdaq** Inc. are forging a partnership to match up the blockchain with real money.

The two companies said they have been working together, along with technology startup **Chain** Inc., for months to link Citigroup's business-payments services to Nasdaq's blockchain platform that has been used for activities such as buying and selling shares of private companies.

For blockchain, the move represents a notable chapter in its development.

Blockchain is the peer-to-peer networking technology developed to transfer ownership of the virtual currency bitcoin between people.

Bitcoin's value has soared this year, crossing over \$2,000 in recent days. But it still hasn't found widespread traction in traditional banking. The recent WannaCry computer attack asked for ransom payments in bitcoin.

With the partnership, a blockchain is connecting to one of the largest and most established bank money-transfer systems. And it gives big banks a way to earn fees helping new networks facilitate business

payments if traditional settlement or invoice systems are disrupted.

Overall, banks, exchanges, and other financial firms have poured more than \$1 billion into projects and startups us-

The new system would speed up a key part of the settlement process for trades.

ing forms of blockchain technology, according to Greenwich Associates.

The aim is to be able move things like stocks, derivatives,

and other assets between two parties much more cheaply than with existing systems.

But without bitcoin or another digital currency, however, those systems might be missing a crucial ingredient: money.

Efforts to create digital versions of dollars and other government-backed currencies are in their infancy.

Starting last year, Citigroup and Nasdaq began working together to match up Nasdaq's Linq blockchain platform to Citigroup's Treasury and Trade Solutions unit, which moves trillions of dollars globally in business payments.

Both firms are investors in San Francisco-based Chain, and have worked with the

startup in their blockchain efforts. Citigroup invested in Chain through its venture arm, Citi Ventures, which worked with its treasury unit on the project.

The new system links Citi-Connect, a tool that can be used to manage large-sum payments across borders and across currencies, to blockchains—in this case Nasdaq's Linq. This speeds up a key part of the usual multiday settlement process for trades.

The companies have already used the new system to make payments on trades, they said. Citigroup would earn standard fees to facilitate the payments just as it would for any business-to-business transfer.

The new system is a pilot

for Citigroup, which for now is working with Nasdaq and Chain, but could develop it for other clients as well, the bank said.

The new system "will lead to relatively greater maturity of blockchain technology, and integrate it into our existing financial infrastructure," said Naveed Sultan, Citigroup's global head of Treasury and Trade Solutions. "That may lead to greater adoption of venues powered by blockchain."

Chain, led by Chief Executive Adam Ludwin, said last year it was working with Visa Inc. on a blockchain network to connect businesses with the credit-card network for cross-border payments.



A Saudi Aramco facility. Nearly six months after OPEC and other big producers pledged to cut crude output, global oil inventories have only recently begun falling and remain at historically high levels.

Oil in Storage Is the Problem OPEC Just Can't Solve

OPEC is likely to extend and perhaps even deepen its production cuts for one main reason: It has failed to drain superhigh levels of oil in storage enough to raise prices significantly.

By Georgi Kantchev,
Sarah McFarlane
and Benoit Faucon

On Sunday, Khalid al-Falih, energy minister for the Organization of the Petroleum Exporting Countries' top producer, Saudi Arabia, said OPEC and its production-cutting allies need to keep holding back output for another nine months. The group's top leaders meet in Vienna on Thursday to make a decision.

"We are all ready to consider other creative suggestions that may emerge to be between now and May 25," Mr. Falih told reporters in Riyadh.

OPEC's predicament underscores the powerful role global oil inventories now play, after years of being a technical detail that some traders ignored. With more data available than ever, oil storage has joined shale production as a symbol of a global glut of crude that has knocked OPEC on its heels.

"The production deal was a risky maneuver by OPEC,"

said Antoine Halff, senior researcher at Columbia University's Center on Global Energy Policy. "By choosing a storage target, they set themselves up for failure."

Almost six months after OPEC's 13 members and 11 other big producers pledged to cut about 2% of global oil supply, stored crude has only recently begun falling and remains at historically high levels.

Brent crude, the global benchmark, was up 0.6%, at \$53.93 a barrel, on Monday afternoon but prices remain below the levels reached in the days after the production cut's announcement and short of the \$60-a-barrel target that Saudi Arabia wants.

OPEC leaders say they want to reduce storage levels in the Organization for Economic Cooperation and Development—a club of industrialized countries like the U.S.—to a five-year average. About 550 million barrels of crude and oil products have been added to the world's stocks since 2014, when prices began sinking, said Christopher Baker, a member of the executive committee at large oil trader **Vitol Group**.

OPEC leaders have said they want to siphon off more than 300 million barrels of

crude oil from OECD stocks, which reached records of over three billion barrels last year.

But OECD stocks continued increasing in early 2017 and fell in March by just 32 million barrels, according to the International Energy Agency, a global adviser to oil-consuming places such as the U.S., India and Europe. Even if the OPEC and non-OPEC cuts are extended into the second half of 2017, stocks won't draw down to the five-year average this year, the IEA said.

An OPEC official said the group's plan was beginning to work and needed more time.

"Stocks are now coming down," the official said.

The official said OPEC was also concerned about high inventories in 2008 and 2009, when the global economic crisis depressed demand and prices, sending storage levels higher.

Storage levels eventually fell, and prices rose, in 2009 as the crisis abated and oil-demand growth returned.

OPEC's focus on storage levels comes as U.S. shale producers are able to withstand low prices. The group has found that its power to flush oil out of storage is limited.

Crude Prices Reach Highest in a Month

Oil prices rose to a fresh one-month high Monday, with traders expecting this week's OPEC meeting to end with an extension or even deepening of the group's recent output cuts.

Monday's gains would be the 10th in 12 sessions, one of several lengthy rallies in recent months largely tied to the Organization of the Petroleum Exporting Countries. Falling stockpiles this month in the U.S.

have some convinced that cuts from OPEC are affecting supply,

and crude prices are up 12% since a six-month low May 4.

U.S. crude for June delivery was up 34 cents, or 0.7%, at \$50.67 a barrel at midday on the New York Mercantile Exchange. The more actively traded July contract gained 36 cents, or 0.7%, to \$51.03. Brent, the global benchmark, rose 32 cents, or 0.6%, to \$53.93 a barrel on ICE Futures Europe.

OPEC meets Thursday to discuss its continuing, six-month deal to drop production by 1.8 million barrels, which leaders have said might get an extension through next winter.

Comments along those lines from OPEC officials and from

Saudi and Russian leaders haven't received as much attention as they might have deserved, analysts at Credit Suisse Group AG said in a note Monday morning.

They are "fully aware that their efforts so far have broadly failed and that either the group abandons active supply management entirely, or it becomes more serious. It looks as if producers will get serious," the analysts said.

"Crude is increasingly pricing in expectations that production cuts will be rolled over into 2018," consultancy JBC Energy said in a note.

—Timothy Puko

One of the main culprits might be OPEC itself. The group ramped up output just before the cuts were slated to start in January, adding to the world's already vast oversupply.

According to data from oil-tanker tracking firm Kpler, OPEC's January-to-April exports were in line with the same period last year.

OECD storage is only a slice of what investors are looking at. More than half of the world's oil-refining capacity is outside the OECD, in countries such as China and

India, where accurate storage data is difficult to come by.

China made significant inventory drawdowns early in the year followed by large inventory builds to recover to an oil stock level of 783 million barrels as of May 17, according to data from global storage-monitoring firm Ursula Space Systems Inc., which monitors 75% of China's storage capacity.

Saudi Arabia's stocks rose 2.3%, or six million barrels, over February and March, according to the Joint Organisations Data Initiative, a group

based in Riyadh that compiles oil-industry information. According to Kpler, stocks appear to be falling in major oil-storage hubs in the Caribbean and South Africa.

There is also less oil being held in giant tankers at sea, an expensive way to hoard oil but one that became common during the glut. According to Kpler, the volume of oil held on ships had fallen about 23% from December to 91.1 million barrels at the end of April.

—Summer Said and Margherita Stancati contributed to this article.

China's Bond-Yield Curve Gets Distorted

BY SHEN HONG

SHANGHAI—China's \$1.7 trillion government-bond market is turning ever weirder.

In a fresh sign of the nerves among investors caused by Beijing's campaign this spring to make Chinese markets less risky, the yield on seven-year government bonds rose to 3.79% on Monday, above the yield on both five-year and 10-year bonds.

The highly unusual move means that China's government-bond yield curve now resembles a triangle, with the seven-year yield at its highest since October 2014. Yield curves show the interest rates investors are willing to receive when they buy bonds of differing maturities.

The shift comes less than two weeks after the government-bond yield curve became inverted for the first time on record, with 10-year yields—now at 3.65%—lower than those for five-year bonds, currently at 3.68%. Normally in-

this fall.

Instead, the market's latest quirk has come about partly because trading in Chinese government bonds of some maturities, such as the seven-year, tends to be quite low in volume.

That trend has been exacerbated in recent weeks amid strenuous efforts by Chinese regulators to tame speculative investment using heavy levels of borrowed funds. As investors have sold off their bonds, or simply stopped trading them, price movements have become more erratic.

"It's mostly due to the fact that the seven-year bond is less liquid. That's why its yield can be easily pushed up in a sell-off," said Wang Jing, deputy general manager of the fixed-income department at Shenzhen-based China Securities Credit Investment Co.

The yield-curve anomalies also have their roots in long-standing structural flaws in China's bond market, already the world's third-largest and

pivotal to Beijing's effort to modernize the way its economy is financed.

Contributing to the lack of demand in seven-year bonds, for example, is the fact China's government-bond futures market, where investors can hedge their cash bondholdings, has contracts for five-year and 10-year bonds only, Mr. Wang said. Similarly, trading in China's interest-rate swaps, another popular derivatives product, is active only up to five years, said a Shanghai-based senior trader at a local mutual fund.

In contrast, the prices of benchmark 10-year government bonds are cushioned by demand from long-term investors such as insurance firms and banks, said Suan Teck Kin, an economist at United Overseas Bank in Singapore.

The recent price distortions in China's bond market also betray structural issues such as the lack of a diverse group of participants, including foreign investors, Mr. Suan said.

CITIGROUP

Bank in Settlement Of U.S. Investigation

Citigroup Inc. has agreed to pay less than \$100 million to settle a yearslong money-laundering investigation, the bank and government agencies said Monday.

The bank reached a settlement with the U.S. Justice Department and U.S. attorney's office in Boston for \$97.44 million, with no sanctions against Citigroup and a so-called nonprosecution agreement, according to the bank and Justice Department.

The investigation centered on activity in the bank's Bannex USA unit.

As part of the agreement, Citigroup admitted that Bannex USA violated the Bank Secrecy Act from at least 2007 until at least 2012.

The agreement is far less than previous money-laundering settlements with large banks. Other deals have often topped \$1 billion and involved so-called deferred prosecution agreements

or criminal guilty pleas.

Citigroup said in a written statement that it was "pleased to resolve these matters."

—Emily Glazer and Telis Demos

SUGAR

China's Tax Surges On Some Imports

Beijing is nearly doubling its tax on some imported sugar.

Saying that an investigation had found that imports have damaged China's sugar industry, the Ministry of Commerce said the tax on imports beyond the first 1.95 million tons a year will be raised to 95% from the current 50%, effective immediately.

After a year, the rate will fall to 90% after two years, to 85%.

The tax on the first 1.95 million tons will remain 15%.

China is the world's largest sugar importer. Combined official and illegal imports rose 60% in the three years through Sept. 30, the U.S. Department of Agriculture estimates.

—Lucy Craymer

Yield Signs

Yield curve of China's government bonds



Source: Wind Info

THE WALL STREET JOURNAL

vestors demand higher yields on bonds that have longer to go until maturity.

An inverted yield curve usually reflects investor pessimism about a country's long-term growth and inflation prospects. But in China, few are predicting prolonged deflation or recession, despite signs the economy could slow

MARKETS

Solar Sales Data Allegedly Manipulated

Sunrun delayed reporting canceled contracts near its IPO, former managers say

By KIRSTEN GRIND

Former managers at one of the largest U.S. solar-energy companies say they manipulated a key sales metric around the time of the company's August 2015 initial public offering.

The former managers of Sunrun Inc. say they were told by their superiors to hold off on internally reporting hundreds of customers who canceled their contracts during a roughly five-month period in the middle of 2015.

Sunrun and other solar companies typically give homeowners at least several days to back out of a contract before their home-energy systems are installed. Delaying the internal reporting of canceled contracts would make the company's sales figures appear stronger.

"The big internal push was to cram as many sales as we could through the pipeline," says Darren Jennings, who says he was a Sunrun regional sales manager in Hawaii from February 2015 until February 2017. "If those deals canceled, we would not report it."

Mr. Jennings says in Hawaii, one of the San Francisco company's largest markets, sales employees didn't process about 200 cancellations, which represented about 40% of total orders in Hawaii during the May 2015–October 2015 period.

Three other former managers also say they were aware of or took part in delaying the reporting of hundreds of customer cancellations.

Lynn Jurich, Sunrun's chief executive and co-founder and Edward Fenster, Sunrun's co-founder and chairman, declined to be interviewed for



Sunrun Chief Executive Officer Lynn Jurich celebrated the company's initial public offering, at \$14 a share, in August 2015.

this article.

In a statement, Ms. Jurich didn't directly address the question of whether employees delayed reporting customer cancellations but said the company had "reviewed the digital audit trail in our systems" and "turned up no evidence that our sales employees changed cancellation dates in our systems to delay the reporting of cancellations."

Ms. Jurich said in the statement that "I proudly stand by Sunrun's workplace culture, our values and our unwavering commitment to customer satisfaction and the principle of integrity upon which our company was founded."

Sunrun, backed by venture-capital firm Sequoia Capital, is the biggest publicly traded rooftop solar-energy company. The industry has grown into a \$33 billion force that powers 1.5 million homes.

The Securities and Exchange Commission is investigating whether Sunrun and rival SolarCity Corp., now part

of Elon Musk's Tesla Inc., have adequately disclosed to investors the number of cancellations they have experienced in recent years, according to a person familiar with the matter. An SEC spokesman declined to comment.

At Sunrun, cancellations reached as high as 40% of all deals earlier this year, people familiar with the matter said. At SolarCity, 50% of customers in early 2016 were canceling, said people familiar with the data. Salespeople and homeowners have blamed the high rate on aggressive sales tactics, as some customers say they backed out of deals they didn't realize they were agreeing to.

A spokeswoman for SolarCity has said the company "has remained focused on reporting the quality of our installed assets, not pre-install cancellation rates." Sunrun declined to comment on the SEC investigation.

"There is some judgment in determining when an installation might not proceed—my

direction to our employees is to make these calls with integrity and always focused on the customer," Ms. Jurich said in a follow-up statement.

Around the time of the IPO, Sunrun's cancellation data influenced at least two of the company's key financial metrics: its number of customers and its amount of "megawatts booked," which describes the amount of energy production generated by home energy systems sold to customers.

For example, Sunrun reported that in the third quarter of 2015, it had booked 94 megawatts, a 115% increase compared with the prior year's quarter, net of cancellations—meaning that a delay in reporting cancellations would have the potential to inflate the figure. Sunrun said at the time that its customer base had reached 100,000, which included clients who had signed a contract but hadn't yet had their systems installed.

Earlier this year, Sunrun revised its definition of what constitutes a customer to fol-

low more stringent guidelines, which reduced the previously reported size of its customer base by about 4%.

If Sunrun didn't report cancellations that could have affected sales figures in its financial disclosures, "the SEC probably has a very good case in saying the company committed a material misrepresentation of how their business is performing," says James Cox, a securities law expert at Duke Law School.

Ms. Jurich, 37 years old, and Mr. Fenster, 40, met while attending Stanford University's Graduate School of Business and founded Sunrun in 2007.

The company grew rapidly. It raised \$295 million in funding from venture-capital firms Sequoia, Accel Partners and Foundation Capital, which together control about 23% of the company. Foundation Capital declined to comment. A Sequoia spokesman declined to comment. A Sequoia spokesman declined to comment. A Sequoia spokesman declined to comment.

The Journal asked Sunrun about the rushed installations, but the company didn't address it in Ms. Jurich's state-

Sunrun went public in August 2015 at \$14 a share, giving it a market value of about \$1.4 billion. Since then, its market value has fallen to about \$534 million, hit by factors including new regulations.

Mr. Jennings, the former Hawaii sales manager, said about three months ahead of the IPO, he and other sales managers were told by Sunrun superiors that they shouldn't process customer cancellations until after the company went public.

"The joke around Sunrun was that it was easier to get fired than to cancel a project," Mr. Jennings says.

Employees say they weren't aware they were doing anything wrong at the time.

Mr. Jennings says he changed current cancellations in the company's sales system for he and his 14 employees to the date 12/31/2009. After the IPO, around October 2015, Mr. Jennings says that over a several-week period, he input the cancellations into Sunrun's customer-management software "in a slow drip," so as not to call attention to a rise in cancellations.

That increase prompted Sunrun to rescind previously paid commissions from some salespeople across the company.

Evan Stockdale, who says he was a Sunrun regional manager in Fresno, Calif., between April 2015 and January 2016, says managers weren't processing customer cancellations in the months immediately before and after the IPO.

He says the company also rushed installations around the end of the third quarter of 2015 to make sure Sunrun hit its internal growth targets.

"We were pushed for sales numbers," he says. "Everybody was on pins and needles."

The Journal asked Sunrun about the rushed installations, but the company didn't address it in Ms. Jurich's state-

HEARD ON THE STREET

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Big Tech's Not-So-Easy Money

There are some things even half a trillion dollars can't buy.

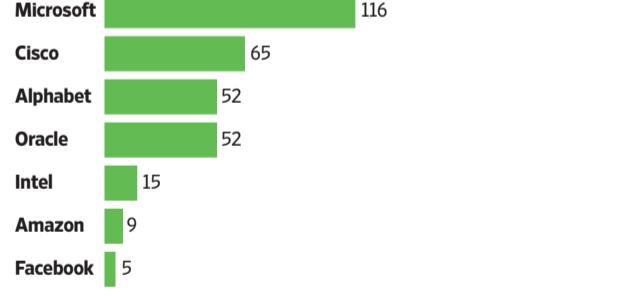
One of those is freedom from Washington politics. Tax-overhaul promises from the Trump administration had lit up technology investors considering a rather large purse. The 10 largest tech companies by market cap are sitting on a total of \$545 billion in offshore cash—money seemingly just waiting for U.S. politicians to agree on a plan that would allow those funds to be repatriated for something significantly less than the current 35% tax rate.

The dim prospects for such a deal now had a noticeable effect in the sell-off last week, which handed the Nasdaq Composite its worst day in nearly a year. Apple was among the hardest hit, falling 3.4% that day. It is no coincidence that Apple has \$230 billion sitting offshore—by far the largest overseas stockpile in tech.

That should at least curb some speculation about a deal-making boom that could

Offshore Stash

Cash and equivalents held by foreign subsidiaries, in billions



Source: the companies

be fueled with that money. Such chatter tends to inflate valuations of smaller public and private companies banking on a buyout.

But cash stranded offshore still has some uses at home. In the case of Apple, it has backed a growing debt load that finances the company's dividend and share buybacks. Microsoft, Oracle and Cisco Systems also have made use of debt backed by their overseas bank ac-

counts. For those four companies, offshore cash accounts for 28% of their combined market cap.

Cash also helps moderate high valuations of big tech companies. Apple's current multiple of nearly 16 times forward earnings is a five-year high, but that drops to 12.7 times excluding the company's net cash. Google parent Alphabet's and Microsoft's forward earnings multiples get discounted by

14% and 9%, respectively, excluding their net cash.

It is also worth remembering that bulging bank accounts aren't the only good reason to buy into big tech right now: Google, Microsoft, Amazon.com and Facebook have capitalized effectively on their scale and continue to widen the lead over smaller rivals. Apple seems on the cusp of returning its iPhone business to growth.

And while repatriated cash could boost deal making, large-scale M&A hasn't been a major factor in big tech's resurgence. Microsoft is still in the early days of building on its \$26 billion purchase of LinkedIn last year, and that deal isn't part of the company's growing Commercial Cloud operations. Google and Amazon have largely been avoiding big deals of late.

That doesn't mean an actual repatriation tax break won't be welcome. But the biggest tech companies right now are in the advantageous position of not having to bank on it. —Dan Gallagher

OVERHEARD

You can learn more about investing at the racetrack than most people think.

That lesson was reinforced over the weekend when long-shot thoroughbred Cloud Computing was the surprise winner at the Preakness Stakes. Cloud Computing is co-owned by Baupost Group founder and value investor Seth Klarman.

Those hoping to learn from Mr. Klarman typically have to pay up. His letters to limited partners are private, while used copies of his out-of-print book "Margin of Safety" list for hundreds of dollars on Amazon.

But average investors can still learn from the finance theme of the names Mr. Klarman chooses for his horses. The rise to prominence of cloud computing, for instance, is arguably one of the most important investing developments in recent history. Past names for his horses include Pricedtoperfection, Takeover Target, Balance the Books, and Sum of the Parts, according to America's Best Racing.

Baidu Falls Behind in Video Race

Millions in China already spend much of their day staring at smartphone apps from the country's online giants. Still, Alibaba, Tencent and Baidu want to occupy more of users' time—with videos. As the race intensifies, Baidu could continue to lag behind.

The big three have spent billions of dollars on video in recent years. Each owns portals that initially were like YouTube, hosting user-generated, sometimes pirated, content. Now, like Netflix, they are funding original content to boost subscriptions. Content costs and agency fees at Tencent, China's most valuable company, rose 44% to \$1.1 billion last quarter. Alibaba incurred a loss of nearly \$1.5 billion on digital entertainment in the past year.

Baidu, which runs China's biggest search engine, arguably has the most at stake. It trails its rivals in investor popularity: Tencent's share price has almost tripled over three years, yet Baidu's stock has risen only 20%.

Baidu, whose outlay on content rose 91% in the first quarter, intends to double spending by year-end. Its video unit plans to distribute some of Netflix's original content.

Still, the odds seem tilted against Baidu. While revenue rose 7% in the first quarter, Alibaba and Tencent posted gains of more than 50%. That duo's stronger core businesses should allow for more splurging on videos, even if they prove unprofitable for a while, and their large user communities should provide a leg up.

Baidu came up short at China's prior internet party. It might miss out on the next one, too. —Jacky Wong

Why a Rebound in U.S. Lending Isn't Easing Anxieties

Not Encouraging

Total U.S. commercial and industrial loans, change from year earlier



Note: Data are seasonally adjusted

Source: Federal Reserve

That compares with 6.4% growth for all of 2016 and 7.6% year-over-year growth seen in late October. Commercial and industrial loans rose just 2% from a year ear-

lier in the latest data.

Historically, C&I lending is tightly correlated with economic growth, said Credit Suisse analyst Susan Katzke. Because it was running much faster than gross domestic product growth, at an average rate of 9% over the past five years, she argued some slowdown was inevitable.

However, the sharpness of the slowdown and its timing, beginning around the time of the presidential election, have unnerved many analysts and suggested that political uncertainty is playing a role.

The two explanations don't necessarily conflict. Lending might have been due for a slowdown to bring it

more in line with underlying economic growth, but if lenders and borrowers alike are unsure of what economic policies are coming, they can't gauge the likely pace of growth going forward.

While reporting their first-quarter earnings, many bankers said publicly that their clients were holding back on borrowing for big projects until they were more certain about the policy outlook.

Last week, Terrance Dolan, the chief financial officer of large regional lender U.S. Bancorp, reiterated that message. Loan growth in April has been "a little bit stronger" than its 0.2% pace

in the first quarter, he said at an investment conference in London.

Corporate and industrial clients, he said, are optimistic about tax reform, infrastructure spending and other potential policies. But he added that these clients are still waiting to see what actually happens. "So a lot of optimism, hopefully translating into confidence and then action. We're not seeing that action yet."

Last week's eruption of political turmoil won't soothe borrowers' nerves. Banks might not start lending at full force again until Washington gets its act together. —Aaron Back