

# THE WALL STREET JOURNAL.

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ASIA EDITION

As of 4 p.m. ET DJIA 21006.94 ▲ 0.26% NIKKEI 19445.70 Closed

STOXX 600 394.54 ▲ 0.65% BRENT 49.10 ▲ 1.49%

GOLD 1224.80 ▼ 0.14% EURO 1.0998 ▲ 0.11%

DLR \$112.68 ▲ 0.19%

## What's News

Business & Finance

The IPO market is rebounding, but big startups like Uber and Airbnb are holding back on concerns their companies would be valued at less than private fundraising rounds. **A1**

♦ Indian outsourcing firms are applying for fewer U.S. work visas as Trump tightens restrictions on immigration. **A1**

♦ Kushner Cos. is pushing investor visas to entice wealthy Chinese to invest a combined \$150 million in a New Jersey development. **A3**

♦ Syngenta's shareholders approved a \$43 billion takeover by ChemChina, which now faces challenges in integrating the Swiss firm. **B1**

♦ Buffett said Berkshire Hathaway is already examining ways to benefit from the lower corporate tax rate proposed by Trump. **B1**

♦ Monsanto is investing in gene editing to keep an edge over rival suppliers of high-tech crop seeds, but other firms are also jumping in. **B1**

♦ Mainland Chinese buyers spent \$12.75 billion on 255 private airplanes over the past five years as they pursue international deals. **B1**

♦ The largest U.S. companies are posting their strongest quarterly profits in five years as they reap the benefits of belt-tightening. **B2**

### World-Wide

♦ North Korea detained a U.S. citizen tied to a Christian-backed university in Pyongyang, adding another twist as Washington seeks to slow the North's nuclear and missile program. **A1**

♦ Boko Haram freed 82 of the nearly 300 Chibok schoolgirls seized three years ago in exchange for detained members of the Nigerian militant group. **A4**

♦ China has mandated the use of body cameras by law-enforcement officers in a test of transparency to quell criticism. **A3**

♦ Yates's testimony is expected to shine a light into the probe of Russia's alleged election interference. **A7**

♦ France voted in the deciding round of the presidential election. Pre-vote polls predicted a 20-percentage-point victory for Macron. **A4**

♦ Trudeau said he would consider retaliatory measures in response to U.S. tariff on Canada's lumber imports. **A4**

♦ A growing labor shortage in the U.S. commercial property sector is driving up costs of some projects. **A7**

♦ Hamas named Ismail Haniyeh head of the Islamist movement's political arm. **A4**

♦ EU leaders will meet with Trump during his visit to Brussels this month. **A4**

### Journal Report

Finding the answer to a basic investing question—how much you're paying in investment fees—can elicit confusion and frustration. Investing in Funds, **B4-5**

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ASIA EDITION

# Pyongyang Holds Fourth American

U.S. citizen tied to a Christian-backed university is second to be held in two weeks

By JONATHAN CHENG

SEOUL—North Korea's state media said that it detained a U.S. citizen tied to a Christian-backed university in North Korea, two weeks after arresting one of his colleagues.

The arrest on Saturday of Kim Hak-song for committing

"hostile acts" brings the number of known U.S. citizens detained in North Korea to four, adding another twist to troubled relations between Washington and Pyongyang as the U.S. seeks to slow the North's nuclear and missile program.

According to the report Sunday by North Korea's official Korean Central News Agency, Mr. Kim works for the Pyongyang University of Science and Technology, a university founded in 2010 by James Kim, a Korean-American Christian businessman.

Two weeks ago, North Korea detained Tony Kim, a Korean-American accounting professor at PUST, as he was preparing to depart North Korea at Pyongyang's main international airport, citing "hostile acts."

PUST, while not officially Christian, hires largely Christian faculty, and says on its website that "churches can support PUST through prayer and through spreading the news about this project among congregation members."

North Korea has arrested a

number of U.S. citizens doing Christian-related work in the isolated country. Kenneth Bae, a Korean-American missionary, was sentenced to 12 years' hard labor for "hostile acts," and was freed after two years in November 2014.

In 2014, American Jeffery Fowle was detained and held for six months after leaving a Bible in a nightclub bathroom.

A spokesman for PUST didn't immediately respond to requests for comment. A spokesman for the U.S. Embassy in Seoul said that it was

aware of the reports but had no comment.

While North Korea is officially atheist, the state glorifies its founder Kim Il Sung, his son Kim Jong Il and his grandson, the current leader Kim Jong Un as quasi-deities. The country has also long maintained ties with Christian groups, many of which conduct humanitarian aid work in the country.

A delegation of North Koreans arrived in Canada last week for meetings with

Please see DETAIN page A3

## France Makes Its Choice for President



CENTER VS. FAR RIGHT: France voted Sunday in the runoff of a presidential election between Emmanuel Macron and Marine Le Pen. Pre-vote polls predicted a 20-point victory for Mr. Macron, shown in poster at left alongside Ms. Le Pen in Saint-Sulpice-des-Landes. **A4**

## As IPOs Accelerate, Star Firms Hold Off

By CORRIE DRIEBUSCH AND MAUREEN FARRELL

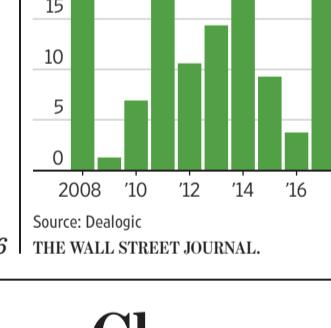
A soaring stock market, historically low volatility and a rally in technology shares has fueled a rebound in the U.S. market for initial public offerings. But the biggest, highest-profile startups are still hanging back, reflecting broader concerns about whether they can match the rich valuations offered by private investors.

A slew of firms are preparing to go public this year, as the volume of new listings reaches levels not seen since 2014. U.S.-listed IPOs raised more than \$18 billion in the first four months of the year, four times as much as in the same period last year and nearly double the comparable 2015 total, according to Dealogic.

Please see IPO page A2

### Pickup

U.S. IPOs have raised the most money in the first four months of the year since the same period in 2014.



THE WALL STREET JOURNAL.

## VENEZUELA IS STARVING

Hobbled by economic policies, Latin America's once-richest country can no longer feed its people

By JUAN FORERO

YARE, Venezuela—Jean Pierre Planchart, a year old, has the drawn face of an old man and a cry that is little more than a whimper. His ribs show through his skin. He weighs just 11 pounds.

His mother, Maria Planchart, tried to feed him what she could find combing through the trash—scraps of chicken or potato. She finally took him to a hospital in Caracas, where she prays a rice-milk concoction

keeps her son alive.

"I watched him sleep and sleep, getting weaker, all the time losing weight," said Ms. Planchart, 34 years old. "I never thought I'd see Venezuela like this."

Her country was once Latin America's richest, producing food for export. Venezuela now can't grow enough to feed its own people in an economy hobbled by the nationalization of private farms, and price and currency controls.

Venezuela has the world's highest

inflation—estimated by the International Monetary Fund to reach 720% this year—making it nearly impossible for families to make ends meet. Since 2013, the economy has shrunk 27%, according to local investment bank Torino Capital; imports of food have plunged 70%.

Hordes of people, many with children in tow, rummage through garbage, an uncommon sight a year ago. People in the countryside pick farms clean at night, stealing everything

Please see STARVE page A6



## Boko Haram Frees 82 More Girls

By NEWLEY PURNELL

SWAP: Eighty-two of the 276 girls kidnapped in 2014 by the jihadist group have been released in exchange for detained Boko Haram members.

The girls, left, arrived Sunday in the Nigerian capital of Abuja to meet the country's president. **A4**

## Trump Spurs Changes At Indian Outsourcers

By NEWLEY PURNELL

NEW DELHI—As President Donald Trump tightens restrictions on immigration, Indian outsourcers are applying for fewer U.S. work visas, bringing employees home and trying to automate much of what they do.

Mr. Trump last month said he wants to alter rules for accepting high-skilled foreign workers under the H-1B visa program, which he said is a victim of widespread abuse, signing an executive order calling for a governmentwide review aimed at stricter im-

migration enforcement and closing loopholes that undermine his "Buy American" initiatives.

The visas should only be granted to the "most-skilled and highest-paid applicants," he said. Indian outsourcing companies are the largest employers of H-1B holders, while U.S. technology companies such as Microsoft Corp. and Alphabet Inc.'s Google also use the visas but usually to recruit employees with rare skills that attract higher wages.

Please see VISAS page A2

♦ Kushner Cos. pushes visas to wealthy Chinese **A3**

### This Arctic Village Loves Visitors, Unless They're Car Spies

\* \* \*

In Sweden's Arjeplog, photographers of auto tests get the cold shoulder

By CHESTER DAWSON

ARJEPLOG, Sweden—When Andreas Mau started coming to this village of about 3,000 near the Arctic Circle, the photojournalist quickly learned of a deep local bias against one particular group of outsiders: strangers with cameras.

While trying to complete assignments, the 50-year-old Mr. Mau says, he was physically threatened, had drivers try to run him off the road and was blacklisted from some local hotels. "It was like the

Wild, Wild West."

There was a reason for Arjeplog's chilly attitude: This town in the Lapland wilderness is where many auto makers bring new models and prototypes for winter testing—to the town's economic benefit.

As a "spy" photographer, Mr. Mau nabs shots of top-secret cars going through their paces. Desirable shots, according to people at publishers that buy

them, can fetch anything from \$300 to more than \$1,500 depending on their rarity.

Some residents of Arjeplog (pronounced AH-rrreeeyh-ploog) say they worried that snoops like Mr. Mau might drive off auto makers.

To protect their carefully scripted car-debut plans and avoid tipping off rival manufacturers, auto makers perform camouflage tricks on

Please see SPIES page A6

## INSIDE



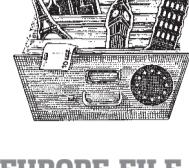
## TURNING TO TREES TO CURB STRESS

LIFE & ARTS, A8

KEYWORDS, B1

## WORLD NEWS

# The Arctic: Source of Conflict or Cooperation?



### EUROPE FILE

By Simon Nixon

KITTIKA, Finland—In normal times, a meeting of the Arctic Council wouldn't usually attract much attention.

The intergovernmental forum was established 20 years ago to enable

the six countries with territory inside the Arctic Circle—the U.S., Canada, Russia, Sweden, Finland and Denmark—to discuss how to protect the polar region's unique environment.

But at a time of heightened geopolitical tension, this week's meeting in Fairbanks, Alaska, carries extra significance. With U.S. Secretary of State Rex Tillerson and his Russian counterpart, Sergei Lavrov, due to attend, the meeting that begins on Wednesday could have broader strategic consequences—both for the Arctic and the world.

The formal agenda includes

a review of initiatives to improve living conditions for Arctic communities, enhance stewardship of the Arctic Ocean and assess the latest evidence on climate change before the U.S. hands over the two-year chairmanship to Finland. But an unspoken objective is to ensure geopolitical tensions elsewhere don't spill over into the Arctic.

Fears that the Arctic could become a source of conflict have been growing in recent years. Those anxieties first surfaced when Russia planted a flag on the Arctic seabed under the North Pole in 2008. They have been further fueled by increased Russian military activity in the region, including the expansion of its Northern fleet based in Murmansk, the reopening of old Soviet military bases and a large-scale Arctic military exercise last year.

At the same time, some analysts have been concerned that melting of the polar ice could spark a scramble to exploit commercial opportunities in the Arctic in areas such as energy, shipping and fishing, which could contribute to rising tensions. Over the past 30 years the area covered by Arctic sea ice has declined by more than half.

Nonetheless, the Arctic isn't yet the arena for a new



An icebreaker in Russia's seaport of Dudinka this month. The Arctic Council will meet this week.

LEV FEDOSEYEV/TASS/ZUMA PRESS

Great Game between global powers. Unlike in other geopolitical hot spots, there are no serious territorial disputes in the Arctic. International law, including the United Nations Convention on the Law of the Sea—which sets out the rules regarding the use of the world's oceans—have been respected by all countries.

Nor has Russia's military activity so far extended beyond legitimate defensive border and infrastructure protection. Its military presence in the region is still far short of its Cold War peak.

And while the Russian navy has 41 icebreakers, it

has only one nuclear-powered icebreaker capable of operating in the Arctic. Much of Russia's military buildup consists of an expanded coast-guard operation which in other countries would be provided by a civilian agency and which Russia claims is for the benefit of all Arctic shipping.

Meanwhile, the expected Arctic economic boom hasn't materialized, according to business leaders at the Arctic Bridge Summit in Kittila, Finland, last week. A U.S. government report in 2008 estimated that 13% of the world's easily recoverable oil reserves and 30% of its natural gas re-

serves are in the Arctic. Yet the combination of the collapse in oil prices and Western sanctions has stalled much Arctic oil and gas exploration, particularly offshore.

Other commercial activities have been held back by lack of infrastructure. A warmer climate can create problems as well as opportunities in the Arctic, including increased risks to pipelines from thawing permafrost and risks to shipping from icebergs.

In reality, the Arctic has so far been a place of cooperation rather than conflict.

The challenge is to keep it that way.

At a time of mutual suspicion between the West and Russia, the concern among military planners is that misunderstandings might destabilize the North Atlantic Treaty Organization's northern flank at a time when the Western military alliance is already facing tension with Russia in Ukraine and the Middle East.

In this respect, the Arctic Council can play an important role in promoting transparency and communication. As a science-led organization with no rule-making powers, it is a forum for dialogue between Russia and the West.

But could the Arctic Council be more than simply a vehicle for preserving the Arctic as a conflict-free zone? Could cooperation in the Arctic contribute to easing tensions elsewhere?

With no normalization of relations between the West and Russia appearing possible without a resolution of the crisis in Ukraine, the Arctic Council's role as a forum for dialogue could become even more valuable in the years ahead—particularly now that the chairmanship is passing to Finland, a country with its own long record of acting as a bridge between Russia and the West.

investors and corporate boards stepped back from the IPO market, wary that the stock market would value their companies at less than prior fundraising rounds. That fear still permeates private-company boards, according to bankers, investors and analysts. And together with cheap funding that is widely available for private companies, it helps explain why many richly valued startups and others aren't rushing to go public.

"The good news is we have an IPO market," said Matthew Sperling, a managing director who runs the equity advisory business at Rothschild & Co. "But issuers and owners are looking at it with a measured level of enthusiasm."

Cloudera Inc. stoked those concerns last month when the big-data software startup debuted at a level far below its last private valuation of more than \$4 billion. Meanwhile,

## IPO

Continued from Page One

Among the companies preparing for IPOs, according to people familiar with the matter, are MongoDB Inc., which has hired Goldman Sachs Group Inc. and Morgan Stanley to lead an offering that is expected to value the data-analytics provider at more than its last valuation of \$1.6 billion; Switch Ltd., an operator of data-storage facilities that recently hired Goldman and J.P. Morgan Chase & Co. for a debut that's expected to carry a valuation of more than \$2 billion; and Axiom Global Inc., a tech-based legal-services provider that recently held a bake-off for potential underwriters.

Altice USA filed paperwork last month for an offering that could raise more than \$1 billion and value the Cablevision owner at more than \$20 billion.

"It feels like some companies are rushing to go because there's a window in the market," said Jim Callinan, portfolio manager at Osterweis Capital Management in San Francisco.

Yet the market still has a long way to go to return to full health. Conspicuously missing from the current IPO pipeline are some of the highest-profile private companies, such as Uber Technologies Inc. and Airbnb Inc., which aren't expected to come to market before 2018. Several investment bankers say there have been fewer bakes off than they'd expect given the favorable market conditions.

Shares of newly public companies are performing well, with this year's batch of IPOs trading 11% above their offering price on average through Friday's close, according to Dealogic. Last year's batch of IPOs have gained an average of 29%, Dealogic data show.

The flurry of activity is a sign the new-issue market that has languished in recent years may be in the midst of a sustained rebound. Snap Inc. debuted in March at a valuation of \$24 billion, far above the Snapchat parent's latest private funding round. Although the shares have fallen from their highs, they still trade well above the price at which they were first offered to the public.

It's a change from much of last year and late 2015, when

There's a concern that the public markets are being used as a last resort.

shares of Twilio Inc., a software company that went public last June, fell 27% last week on the back of soft first-quarter results. Still, the company remains valued at more than \$2 billion, well above its last private round.

So far the IPOs that have debuted "have been priced to sell, but once investors get a taste of success, the companies that come next don't have to offer quite as much of a discount," said Scott Sandell, a managing general partner at venture-capital firm New Enterprise Associates. He added that he expects a robust pipeline for IPOs in the balance of the year.

Indeed, some investors and underwriters say there's concern that the public markets are being used as a last resort. Some of the companies debuting have tried to sell themselves and failed. It is symptomatic of a decadeslong trend that has seen the total number of public companies in the U.S. decline sharply as more entrepreneurs and others choose to avoid the increased disclosure and other perceived drawbacks of broad ownership.

to people familiar with its plans.

The likely path for Spotify AB, the music-streaming service last valued at \$8.5 billion, is yet another sign of the antipathy some companies have toward raising money in the public markets and the IPO process. Spotify is considering a so-called direct listing of its shares, in which the Swedish company wouldn't sell stock and raise capital or use underwriters, unlike in a typical IPO. The Wall Street Journal has reported.

—Corrie Driebusch and Maureen Farrell

## 85-Year-Old's Attempt at Record-Setting Climb Ends in Mourning



REMEMBRANCE: A funeral was held in Kathmandu for Nepalese mountaineer Min Bahadur Sherchan, who died Saturday while attempting to regain his title as the oldest person to climb Mount Everest. He died of altitude sickness, the expedition organizer said.

## VISAS

Continued from Page One

Indian companies that send tens of thousands of workers to the U.S. annually applied for fewer visas this year "due to the fear and uncertainty surrounding the Trump administration's stance on immigration," said Shanon Stevenson, who works with large Indian information-technology firms as an immigration attorney for

Fisher & Phillips, an Atlanta-based law firm.

Some of the firms, which she declined to name, are sending home Indian recruits who are already in America.

The number of H-1B applications fell 16% this year, the first drop in five years. About 85,000 of the visas are allotted each year by U.S. Citizenship and Immigration Services, with many going to Indians in lotteries triggered by overwhelming demand. The visas are good for three years and can be extended, meaning likely over half a million H-1B holders are in the U.S., according to analysts' estimates.

Meanwhile the volume of applications from U.S. tech companies appears to be holding steady, immigration attorneys said.

In an example of how Indian firms are reacting to potential immigration changes, Infosys Ltd., India's second-largest outsourcer by sales, on Tuesday said it is opening a new development center in Indiana in August where it hopes to create some 2,000

jobs for Americans by 2021.

Some Indian firms see opportunities from immigration restrictions. If Indian workers are forced to return home, outsourcing firms "are not going to be able to go out and suddenly replace all those people," so the tech work will be forced offshore to India, said Anand Mahindra, chairman of Tech Mahindra Ltd., one of India's largest IT companies.

"It is a chance for Indian software companies to change the model," which has depended on sending armies of Indians to America, he said.

While Indian outsourcers say they can't find the talent they need with the right skills in the U.S., some analysts say they aren't really trying to do so, driven instead by a desire to pay lower wages, and that new restrictions could force them and other tech firms to hire more Americans.

Scrutiny under Mr. Trump is just the latest challenge facing Indian firms. Artificial intelligence, cloud technologies and bots now allow computers

to do many routine tasks traditionally done by low-level IT workers such as monitoring servers, resetting passwords and providing tech support.

The trend toward doing more offshore and through automation has been emerging slowly in recent years but is accelerating thanks to Mr. Trump's stance, analysts say.

Visa requests from Indian firms "will likely drop further," said David Rutchik, executive managing director at Vienna, Va.-based Pace Harmon, which helps companies pick outsourcing partners. "We expect to see accelerated automation to help them deliver client work."

Outsourcing companies had been reluctant to embrace the changes until now because sending people to companies in the U.S. is a high-profile business, and their clients often request having employees on-site, analysts said.

The White House singled out India's two largest IT firms by sales, Tata Consultancy Services Ltd. and Infosys, along with Teaneck, N.J.-based Cognizant Technology Solutions Corp.—which has most of its employees in India—last month as potential targets of the crackdown.

The companies pay their employees wages that are well below average levels in the U.S. and flood the government with applications to "get the lion's share of visas," said a senior administration official last month in a press briefing.

TCS and Infosys declined to comment on their plans to deal with more onerous visa regulations. A Cognizant spokesman cited comments Friday from company President Rajeev Mehta, who said on a call with analysts that the company is applying for fewer H-1B visas and aiming to ramp up hiring in the U.S.

cle on Wednesday about an end of takeover talks between the Dutch companies incorrectly said sales were about 2.3 billion.

ChargePoint Inc.'s electric-vehicle charging stations have provided millions of individual charges for vehicle operators. A Business Watch article on April 7 about Rick Wagoner's appointment as a director at ChargePoint incorrectly said that the company sold millions of individual chargers.

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# WORLD NEWS

## Kushner Cos. Pushes Visas to Investors

Marketing campaign for New Jersey project targets Chinese cities with green-card carrot

By JAMES T. AREDDY

SHANGHAI—New York property developer Kushner Cos. launched a weekend marketing campaign for a New Jersey development, targeting major Chinese cities for wealthy individuals to invest a combined \$150 million for the chance to secure U.S. immigration rights.

The developer, owned by the family of Trump administration senior adviser Jared Kushner, is trying to draw investment into twin 66-floor commercial-and-residential towers called One Journal Square that would cost almost \$1 billion to build, according to marketing materials. As many as 300 individuals who put \$500,000 each into the project could be eligible for green cards under a U.S. investment-for-immigration program called EB-5, the materials said.

The China marketing push, being led by Mr. Kushner's sister, Nicole Meyer, began in Beijing on Saturday and shifted to Shanghai on Sunday.

It is the latest sign the



Workers wait for investors at an event touting EB-5 investment at a hotel in Shanghai on Sunday.

Kushner family is looking to China for funding to support its U.S. property development. In March, Kushner Cos. ended talks with Beijing-based Anbang Insurance Group Co. over participation in a \$7.5 billion redevelopment of a Manhattan tower amid an outcry over possible conflicts of interest involving the Trump administration.

Mr. Kushner, who is married to President Donald

Trump's daughter Ivanka, had been running the family-controlled Kushner business before last year's election, but resigned from the business and sold his personal stake in some projects and assets to family members and others.

Blake Roberts, an attorney at WilmerHale, which provides personal counsel for Mr. Kushner, on Sunday said his client "has no involvement in the operation of Kushner Cos."

and divested his interests in the One Journal Square project by selling them to a family trust that he, his wife, and his children are not beneficiaries of, a mechanism suggested by the Office of Government Ethics. As previously stated, he will recuse from particular matters concerning the EB-5 visa program.

At Shanghai's Four Seasons Hotel on Sunday, organizers barred media from the two-

hour marketing event, which attendees said included a brief presentation by Ms. Meyer, a principal at Kushner Cos. Before the event, a woman staying in the hotel identified herself over the telephone as Ms. Meyer, but hung up when a reporter for The Wall Street Journal identified himself.

Organizers tried to keep reporters from interviewing attendees, with a representative from QWOS Group, a local partner of Kushner Cos., telling one not to discuss details with reporters. Representatives of QWOS, an immigration-services provider, declined to comment.

Still, some attendees said the project was well-timed, given Beijing is tightening foreign-exchange controls to make it tougher to move money out of the country and that U.S. authorities may raise minimum-investment thresholds for the EB-5 program.

Attendees interviewed said they were aware of the Trump-Kushner ties, but it is unclear how they were factoring that into any investment decisions.

Marketing materials on display for Sunday's event described One Journal Square's location in Jersey City, across the river from New York City, as the "back garden of Manhattan." The

materials noted the success of past collaborations between the Kushner business and QWOS in obtaining U.S. green cards for investors.

On a video playing inside the room where the event took place Sunday, a clip of Mr. Trump briefly appeared, but it wasn't possible to determine the context from outside. A photo of Mr. Trump was also shown on screen during part of the presentation, describing him as the decision maker on U.S. immigration policy, one attendee said, noting there was no suggestion the president authorized the project.

Ms. Meyer's presentation at the event began "with a history of the family fortune," said an architect who attended and identified himself by his surname, Wu. The story, Mr. Wu said, included a description of how her grandparents emigrated to the U.S. from Germany after making money supplying metalwork to builders.

Ms. Meyer afterward could be seen posing for pictures with some attendees. According to online statements by QWOS, the marketing tour will go to five of China's biggest cities over three weekends, concluding May 21 at a golf club in Wuhan.

—Yifan Xie and Mike Bender contributed to this article.

## Troubled Chinese Police Get Body Cameras

By JOSH CHIN

BEIJING—China has mandated the use of body cameras or other video recorders by a law-enforcement agency often accused of thuggish behavior, in a bid to mute criticism with an unusual embrace of transparency.

China's *chengguan*, or urban-management officers, handle nonpolice matters such as enforcing sanitation rules and keeping sidewalks clear. A reputation for violence has made them a lightning rod for public ire, particularly in the smartphone era when accusations often come with visual evidence.

The central government put regulations into effect last week requiring *chengguan* officers nationwide to keep their own recordings of enforcement actions to help settle responsibility in case of a conflict.

The nod to transparency comes as the ruling Communist Party, under pressure from slowing economic growth, seeks to address sources of popular discontent and reclaim its reputation as a defender of the poor.

Of the range of security agencies in China—public or secret, uniformed or plainclothes—the urban-management force is the one that ordinary people are most likely to confront on a regular basis.

The *chengguan* are managed directly by cities rather than the Ministry of Public Security, which manages the police, making them a natural priority for a government trying to centralize control over law and order.

"Chengguan beating people' is practically a part of everyday vocabulary," said a commentary posted to the website of the state-run Sichuan Daily newspaper. "Recording an entire enforcement action is not just being responsible to the masses, it's also being responsible to the *chengguan* themselves."

*Chengguan* officers contacted by The Wall Street Journal argue that incidents of violence are few and often initiated by the public, not the officer. Neither the Beijing Office of Urban Management nor China's



Officers of the urban-management bureau, known as *chengguan*, demand a beggar and his child leave a street in Guiyang in 2011.

Ministry of Housing and Urban Development, which introduced the new rules, responded to requests for comment.

China is following a similar path as the U.S., where many police departments have equipped officers with body cameras in response to rising public anger over police shootings.

The *chengguan* were set up to maintain order in urban areas in the late 1990s, when downsizing of the state sector led to widespread unemployment and an explosion in street commerce. They have developed a reputation for rough treatment of unlicensed street peddlers, beggars and other urban poor.

Criticism of the agency mounted in 2013, after state media said *chengguan* in central China's Hunan province had killed a watermelon vendor by kicking him and hitting him with his scale.

A steady stream of incidents since then has continued to feed

public outrage. Searches in China for the phrase "chengguan beating people" turn up links to thousands of videos on YouTube and the Chinese search engine Baidu, though it couldn't be determined how many separate videos were available.

*Chengguan* officers contacted by The Wall Street Journal said they are themselves victims of violence and are criticized unfairly on the basis of a few extreme incidents. At least one officer has worn Google Glass while on duty to prove that point.

Du Wei, 30, a *chengguan* officer in the city of Xuchang, in Henan province, said she is glad to be wearing a body camera.

"It's great. If you're on duty and there's a conflict, at least now you have evidence," she said.

Footage shot by the palm-sized body cameras can't be edited or deleted, according to Ms. Du, who says officers in her unit turn on the cameras, which can

film for four hours before needing to be recharged, whenever they go into the streets to work.

In April, rumors circulated online that *chengguan* in the eastern province of Anhui had beaten an elderly vegetable seller. City officials later posted video from a body camera that showed the vendor had initiated the aggression after having her goods confiscated, at one point biting an officer.

The Communist Party is more sensitive to domestic criticism over incidents involving regular people than it is to international criticism about other alleged abuses, such as mistreatment of activists and human-rights lawyers, said Maya Wang, China researcher at Human Rights Watch.

"Violence on the street against an ordinary individual that goes viral dents the credibility of the government much more than the hidden torture of dissidents," Ms. Wang said.

China's Foreign Ministry says it treats activists in accordance with the law.

In Beijing, a scrap-metal collector said he wondered whether officers would turn the cameras off when it suited them. Dismantling an eye-exam chair on a patch of dirt behind China's Foreign Ministry, he said, "It's a good policy, but it still depends on the *chengguan* actually doing it."

Several street peddlers and migrant workers said the *chengguan* had grown gentler, though perhaps not shirking from their role. A hairdresser in the capital's Jiangtai neighborhood said *chengguan* officers recently took part in bricking up the entrance to his small hair salon—part of a campaign to push low-income migrants out of the city—but he wasn't worried about violence.

"We have cameras, and now they have cameras," he said.

—Lilian Lin contributed to this article.

## China's Currency Reserves Rise Again

BEIJING—China's foreign-exchange reserves rose for the third straight month in April, edging up on the back of a less-bullish U.S. dollar and Chinese government controls on money moving offshore, economists said.

The foreign-currency reserves increased by \$20.45 billion from the previous month to \$3.03 trillion, according to data released by the People's Bank of China on Sunday. Economists surveyed by The Wall Street Journal had expected an \$11 billion rise following March's \$3.96 billion increase.

Some economists attributed April's increase to a dollar that lost some ground after President Donald Trump said the U.S. currency "is getting too strong."

The value of other currencies in China's reserve hoard—including the euro, the British pound and Japan's yen—played a significant role in the rise, said Yan Ling, an economist with China Merchants Securities.

Also contributing to the reserve accumulation are the tight controls on capital outflows that the central bank began ratcheting up late last year to defend a weakening yuan, some economists said. Policy makers have been pushing harder on that lever instead of burning through the foreign-exchange stockpile to prop up the yuan, the economists said.

"The Chinese central bank no longer cares that much about the level of the exchange rate. Rather, they now care more about the basic stability of the foreign-exchange reserve," said Zhou Hao, an economist with Commerzbank AG.

The reserves dipped below the \$3 trillion level in January.

—Pei Li

## DETAIN

Continued from Page One  
Mennonite Central Committee, which conducts aid work in North Korea.

Billy Graham, the U.S. evangelist, visited North Korea twice in the early 1990s and met with Kim Il Sung.

James Kim, the founder of PUST, has been the object both of Pyongyang's favor and of its displeasure. In 1998, Mr. Kim was detained for six weeks by North Korean authorities, who accused him of being a spy for South Korea.

Two years later, in 2000,

it approached Mr. Kim, who in 1992 founded the Yanbian University of Science and Technology in northeastern China, not far from the North Korean border, about opening a sister school in Pyongyang.

"The missionary zeal is what carries them through, but it may also be their undoing. They do have genuine religious ambition," said Christopher Green, a researcher in North Korean studies at Leiden University in the Netherlands.

While North Korea doesn't tolerate rival ideologies, Mr. Green says Pyongyang likely allows PUST's work, within the confines of restrictions

on open evangelism, because "it brings ideas and technology into the country."

Suki Kim, a Korean-American writer who taught at PUST for six months, said in a book about her experiences that the teachers at PUST were permitted to hold regular Bible studies and Sunday services among themselves, as long as they didn't openly evangelize.

Ms. Kim, who isn't a practicing Christian, said that authorities had to approve every lesson plan at the school.

The detention of Kim Hak-song comes just days after North Korea accused the U.S. Central Intelligence Agency of paying a North Korean

overseas laborer to assassinate leader Kim Jong Un.

In addition to the two Messrs Kim from PUST, North Korea last year sentenced Otto Warmbier, a University of Virginia undergraduate arrested for allegedly trying to steal a political poster from a hotel, and Kim Dong-chul, a Korean-American businessman, to terms of 15 years and 10 years of hard labor, respectively.

A Korean-Canadian pastor, Lim Hyun-soo, has also been detained in North Korea since February 2015. He was accused of committing "state subversive plots and activities" and sentenced to life in prison with hard labor.



Pyongyang University of Science and Technology in North Korea.

## WORLD NEWS

# Nigerian Militants Free 82 Girls in Swap

Some Boko Haram suspects are released but government says no ransom was paid

BY JOE PARKINSON  
AND GBENGA AKINBULE

ABUJA, Nigeria—Eighty-two of the nearly 300 Chibok schoolgirls seized three years ago by Boko Haram have been freed in exchange for detained members of the jihadist group, according to Nigeria's government, marking the biggest breakthrough in the effort to recover the insurgency's most prominent captives.

News of the swap came in a statement early Sunday from office of President Muhammadu Buhari. The freed girls were expected to meet with the president on Sunday in the capital, Abuja, before being reunited with their families.

The fate of the girls—whose April 2014 kidnapping in the town of Chibok kindled the #BringBackOurGirls campaign—fixed global attention on the rampage of the Boko Haram insurgency across swaths of northern Nigeria. Then-first lady Michelle Obama tweeted a picture of herself holding a placard with the #BringBackOurGirls appeal. Mr. Buhari, elected in



Chibok girls recently freed from Boko Haram captivity assembled in Abuja, Nigeria, on Sunday.

for the Chibok community," said Bukky Shonibare, a founding member of the Bring Back Our Girls group, in Abuja.

Emmanuel Yakubu, father to one of the kidnapped girls, traveled to Abuja from Chibok on Sunday morning in anticipation of the release.

"I don't know whether or not my daughter, Dorcas, is among the released girls. But whatever be the outcome, as a parent, I'm very happy at this huge number of released girls after three years in captivity," he said.

Nigeria's military, along with forces from Cameroon and Chad and the help of Western powers including the U.S. and France, has been gaining back territory from Boko Haram. An internal battle for control between Abu Musab al-Barnawi, declared by Islamic State to be the group's new leader, and longtime Boko Haram leader Abubakar Shekau—has also slowed the group, which under Shekau pledged allegiance to Islamic State last year.

Following his election, Mr. Buhari directed a forceful offensive against the group, driving it deep into the Sambisa forest in northeastern Nigeria. The military also drew on local hunters, who helped stage ambushes and liberate hundreds of young, and often

pregnant, hostages.

The losses have pushed Boko Haram to turn to insurgent tactics, stepping up suicide bombings and the use of roadside explosives. It held on to the Chibok girls as its most powerful bargaining chip.

The group, whose war with Nigeria had cost more than 28,000 lives, rejects all Western teachings as evil. Following a crackdown by the government a decade ago, Boko Haram was driven underground and re-emerged to start a violent insurgency against the government.

Signs that the militants were ready to talk had been building for several months. In August last year, a Boko Haram video showed one of the girls pleading with the government to negotiate their release, claiming five of her classmates had been killed in a government airstrike.

Yet government officials have said that shuttle diplomacy between Abuja and the Boko Haram stronghold of Maiduguri since July 2015 had broken down on several occasions after militants made last-minute demands.

Further attempts were delayed after the combat deaths of some key Boko Haram negotiators, and as the group itself was torn by its internal leadership battle.

## Aid for Jailed Palestinians Assailed

BY RORY JONES

QALANDIA REFUGEE CAMP, West Bank—When Israeli soldiers raided this impoverished Palestinian camp in the dead of night, Laith Assad rushed to the roof of his building to join others throwing stones at them.

The soldiers had come late in 2015 to demolish the home of a man suspected of killing an Israeli. During the melee, one shot 21-year-old Mr. Assad through the chest. His father dragged the wounded son from the roof, though he died soon after.

The Palestinian Authority now pays his parents \$300 a month in compensation. But Western countries are pressuring Palestinian leader Mahmoud Abbas to end such payments, which are extended to families of Palestinians imprisoned in Israeli jails for any crime and to families of those killed while attacking Israelis or resisting Israel's control of the Palestinian territories.

Israel has long publicly complained about the payments but has amplified its criticism ahead of a potential new peace push by the Trump administration, using it as a test of the Palestinians' willingness to make compromises Israel sees

as needed for talks. President Donald Trump raised these payments in a meeting with Mr. Abbas on Wednesday at the White House, according to White House press secretary Sean Spicer. The issue is also under scrutiny by a group of U.S. Republican lawmakers who agree with the Israeli view that the system encourages terrorism.

The hope within the administration and among Republican lawmakers is that changes to

### The Palestinian Authority paid about \$300 million to families in 2016.

these payments, viewed as social welfare by Palestinians, would ease tensions with Israel so that long-stalled peace talks can be restarted.

This "is not a social-welfare program," said Sen. Tom Cotton, a Republican from Arkansas. "If the Palestinian Authority is truly concerned about human welfare, it should show a little more concern for the innocent people these terrorists have killed."

Mr. Cotton and several other Republican lawmakers in March reintroduced a bill from last year that would prohibit funding to the Palestinian Authority, the West Bank government headed by Mr. Abbas, as long as it makes these payments. The bill, called the Taylor Force Act, was named after an American killed last year by a Palestinian who stabbed several people in Tel Aviv.

The Palestinian Authority in 2016 paid roughly \$300 million to tens of thousands of families of prisoners or Palestinians killed by Israel, according to numbers published by the Palestinian administration and collated by the Jerusalem Center for Public Affairs, a think tank.

That amounts to roughly 7% of the Authority's budget and nearly 30% of the foreign aid it receives, the think tank said, although the Authority says none of its foreign aid is used to make the payments.

The Palestinian Authority has been making these payments since it was formed in the 1990s amid the Oslo peace process aimed at pursuing a two-state solution. The Authority in 2014 moved the administration of the payments to the Palestine Liberation Organization, the body that negotiates

peace talks with Israel, after the international community questioned whether they were conducive to peace.

"How can you talk about peace when you at the same time fund murderers who murdered Israelis?" Israeli Prime Minister Benjamin Netanyahu said in comments this week directed at Mr. Abbas.

Palestinian officials argue that the funding is a social benefit that compensates for Israeli restrictions and oppression and that it helps prevent families from radicalizing further. Mr. Abbas's government also maintains that many of these deaths were the result of Israel's excessive use of force.

"The Palestinian Authority provides compassionate financial aid to the tens of thousands of families of Palestinians who are, or were, in Israeli prisons; [and to] the wounded and the bereaved," said an official in the PA's finance ministry.

Palestinians say any attempt to cut the payments to families could lead to a backlash against the moderate Mr. Abbas. His popularity is already sagging and his leadership is under threat from rivals, including Marwan Barghouti, a Palestinian prisoner serving multiple life sentences in Israel for his involvement in killing Israelis.

MOHAMMED ASAD/APA IMAGES/ZUMA PRESS



Ismail Haniyeh, center, arrives at a meeting in Gaza City.

### Hamas Movement Names New Leader

Hamas on Saturday named Ismail Haniyeh as head of the Islamist movement's political arm, a long-expected leadership change that puts the popular Palestinian at the helm of the group that controls the Gaza Strip.

The Islamist movement said Mr. Haniyeh, 54 years old, will replace Khaled Meshal, who steps down after a decade in power and just days after he issued a revised set of principles that softened the

group's stance against Israel.

Hamas dropped a long-standing call for Israel's destruction and accepted the notion of a Palestinian state based on Israeli borders before the 1967 Arab-Israeli war.

The group, however, said it would continue not to recognize Israel's right to exist and would eventually seek to control all of historic Palestine, making up Israeli territory, the West Bank and Gaza.

A spokesman for the Palestinian Authority couldn't immediately be reached for comment.

—Rory Jones

and Abu Bakr Bashir

## French Turn Out in Deciding Round of Presidential Election



PARIS—The French voted Sunday in the deciding round of a presidential election that has sidelined mainstream parties and redrawn politics as a contest between globalists and nationalists.

After candidates from the parties that long governed France were knocked out in the first round on April 23, the runoff pits Marine Le Pen, leader of the anti-immigration National

Front, against Emmanuel Macron, a political neophyte who founded his pro-European Union party, En Marche, a year ago.

Late in the day, turnout was lower than the same time in the 2012 election.

Polls conducted before voting began predicted Mr. Macron would win the vote with a 20-percentage-point margin, a result that would come as a relief to defenders of the EU after a long

streak of advances by nationalist leaders on the continent.

Even if she lost with 40%, however, Ms. Le Pen could still seek to build on her results—expected to be the best for a far-right presidential candidate in modern French history—to become a powerful opposition leader, and further promote her protectionist ideas.

The two candidates are offering to steer France in opposite

directions. Ms. Le Pen pledged to extricate the country from the EU and the euro, shutting borders to immigrants and cheap imports she says harm the domestic economy. Mr. Macron said France should embrace the EU and not fear globalization, vowing unpopular overhauls of labor laws to make the country more competitive.

—William Horobin and Nick Kostov

### EUROPEAN UNION

#### Senior Bloc Leaders Will Meet Trump

Top EU leaders will meet with President Donald Trump during his visit to Brussels this month, officials from the bloc said.

Ahead of the gathering of North Atlantic Treaty Organization leaders on May 25, Mr. Trump will confer with European Council President Donald Tusk and European Commission President Jean-Claude Juncker.

A spokeswoman for Mr. Juncker and a spokesman for Mr. Tusk announced the meetings with Mr. Trump on Twitter on Friday.

European officials had pushed for the meeting, given the past statements by Mr. Trump and his administration that Europeans have seen as critical of the bloc.

—Julian E. Barnes

### CANADA

#### U.S. Lumber Tariff Prompts Tough Talk

Prime Minister Justin Trudeau said he would consider retaliatory measures in response to the U.S. imposing a 20% tariff on lumber imports from its northern neighbor.

Mr. Trudeau said in a letter to the premier of British Columbia that he would "seriously and carefully" review the province's request to respond to the U.S. tariff. The bulk of Canada's soft-

wood lumber, used in the construction of homes, originates in British Columbia.

The Pacific Coast province wants the federal government to ban the shipment of U.S. thermal coal bound for customers in Asia. Ports in Canada fall under federal authority.

—Paul Vieira

### BRAZIL

#### Ex-Odebrecht Official Admits Bribe Request

A former top official of Brazilian construction giant Odebrecht SA testified that he was asked in 2014 to bribe the then-head of Mexican state oil firm Petróleos Mexicanos, according to a document filed with Brazil's Supreme Court as part of a broader corruption investigation.

In the document, a copy of which was reviewed by The Wall Street Journal, Brazilian prosecutors informed the court that Hilberto Mascarenhas, who was head of Odebrecht's structured-operations division, said he received a request to pay a bribe of \$5 million to Emilio Lozoya, then-chief executive at Pemex, at a meeting also attended by another Odebrecht official.

The document was earlier reported by the nonprofit organization Mexicans Against Corruption and Brazilian news magazine Veja. It doesn't say whether it was Mr. Lozoya himself who requested the bribe or whether the money was actually paid.

—Juan Montes

# Pratt's Pledge

“

**In support of the President's outstanding leadership in further making America the greatest place in the world to manufacture, I'd like to announce that Pratt Industries pledges to invest an additional \$2 billion over the next decade, doubling our rate of investment in America to create 5,000 high-paying manufacturing jobs mainly in the Midwest.”**

**— Anthony Pratt**

*Executive Chairman,  
Pratt Industries*



*President Donald Trump thanking Anthony Pratt for his pledge.*

NATHAN EDWARDS/NEWS CORP AUSTRALIA



Pratt Industries Chairman Anthony Pratt made this pledge last Thursday night in New York City at an event with President Trump. Pratt Industries currently employs 7,000 Americans in high-paying manufacturing jobs.



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## IN DEPTH

# STARVE

*Continued from Page One*  
from fruits hanging on trees to pumpkins on the ground, adding to the misery of farmers hurt by shortages of seed and fertilizer. Looters target food stores. Families padlock their refrigerators.

Three in four Venezuelans said they had lost weight last year, an average of 19 pounds, according to the National Poll of Living Conditions, an annual study by social scientists. People here, in a mix of rage and humor, call it the Maduro diet after President Nicolás Maduro.

### 'This is an epidemic'

For more than a month, Venezuelans have protested against the increasingly authoritarian government of Mr. Maduro; by Sunday, more than 35 people had been reported killed in the unrest. The country's Food Ministry, the president's office, the Communications Ministry and the Foreign Ministry didn't return calls or emails requesting comment for this article.

"Here, for the government, there are no malnourished children," said Livia Machado, a physician and child malnutrition expert. "The reality is this is an epidemic, and everyone should be paying attention to this."

Dr. Machado and her team of doctors are seeing a dramatic increase in emaciated infants brought to the Domingo Luciani Hospital in Caracas, where they work.

The problem is no better in towns like Yare, south of Caracas, where the government's leftist movement was long popular. "To eat," said Sergio Jesus Sorjas, 11 years old, "I sometimes go to the butcher and I say, 'Sir, do you have any bones you can give me?'"

The boy receives nutritional formula or a traditional Venezuelan corncake from the parish priest. Sergio said he hasn't tasted meat in months: "Sometimes, I don't eat at all."

The Catholic charity Caritas and a team led by Susana Raffalli—a specialist in food emergencies who has worked in Guatemala, Africa and other regions tormented by hunger—are monitoring conditions here.

The most recent Caritas study of 800 children under the age of 5 in Yare and three other communities showed that in February nearly 11% suffered from severe acute malnutrition, which is potentially fatal, compared with 8.7% in October. Caritas said nearly a fifth of children under age 5 in those four communities suffered from chronic malnutrition, which stunts growth and could mark a generation.

"What's serious is not that we're at the crisis threshold, but rather the velocity at how we got there," Ms. Raffalli said.

By World Health Organization standards, Caritas's findings constitute a crisis that calls for the government to marshal extraordinary aid. But authorities have resisted offers of food and aid from abroad.

The country's growing malnutrition is made worse by a breakdown in health care, the spread of mosquito-

borne illness and what the Pharmaceutical Federation of Venezuela has called a severe shortage of medicines.

Belkis Diaz watched her newborn, Dany Nava, wither away last summer from lack of food. There was no baby formula, and Ms. Diaz couldn't nurse, said Albertina Hernandez, the baby's grandmother.

"We couldn't find food, we couldn't find the milk, and he began to get thinner and thinner," Ms. Hernandez said.

By the time Dany arrived at the hospital, he had a serious cough and soon died. "He was so, so tiny," his grandmother said.

In past years, the farms south of here produced at capacity, everything from chickens to soybeans.

Alberto Troiani, 48 years old, still works the hog farm that his father, an Italian immigrant, founded in the 1970s. His business has now been battered by price controls, a shortage of supplies and criminal gangs.

The farm has gone from 200 female pigs, each producing a dozen piglets, to 50. Mr. Troiani can't afford the high-protein feed and medicines he once used. Full-grown pigs now weigh 175 pounds instead of 240 pounds. What is worse, he said, walking past half-empty pens, is seeing his pigs sometimes bite off the tails and ears of others.

"We used to send 120 to 150 pigs a month to slaughter," Mr. Troiani said. "Now it's 50, 60 animals, a joke." He makes 93 cents per kilogram, or 2.2 pounds, of meat, he said, but needs \$1.17 to make a profit. Since 2012, 82% of Venezuela's pig producers have closed, and production has fallen 71%, according to industry representatives.

Mr. Troiani talked about leaving Venezuela with his mother, Yolanda Faccioli, 69 years old, who arrived from Italy in the 1960s. He said he would have no buyers: All around him, people are abandoning their farms. Thieves take what is left behind, he said—copper wire, tractors, weed killer.

The agricultural companies the government has taken over, including milk factories and distributors of fertilizer and feed, are closed or barely operating, according to economists and farm groups.

"The system is created so you can't win," said Alberto Cudemus, who heads the national association of pig farmers. "The government thinks its survival



Keithy Olivo's infant daughter, Thaikelys, above, suffers from severe malnutrition; below, the Palma family outside their home in Yare.



MIGUEL GUTIERREZ FOR THE WALL STREET JOURNAL

is in communism, not in us, not with production. And that's where they're wrong."

### Survival skills

Diogenes Alzolay, 65 years old, once had two small construction companies and later drove a cab. He is now trying to sell the freezers of the small store he once ran along with his books, lamps, photocopier and taxi.

He and his wife, Nidea Cadiz, need money to feed their children, who include a 2-year-old boy and a 7-year-old girl.

He also has three teenagers, ages 13, 16 and 19.

On a recent day, Mr. Alzolay was frying sardines. To stretch the food they have, a couple of family members skip eating one day to leave enough for the others. Meals are sometimes the local corncakes known as arepas, vegetables, mangoes and the occasional canned fish.

"I've thought about running away, but I can't do it because of our very little kids," Mr. Alzolay said. "Getting to this extreme makes me want to cry."

Nine in 10 homes said they

don't make enough money to buy all their food, according to the poll of living conditions.

Nearly a third of Venezuelans, 9.6 million people, eat two or fewer meals a day, up from 12.1% in 2015, the poll found; four of out five in the nation are now poor.

Cesar Augusto Palma, 75 years old, lays out the grim arithmetic of high inflation on a fixed income. His pension is now worth about \$10 a month, he said, enough to buy four boxes of milk.

His grown daughter and three grandchildren are finan-

cial dependents. Mr. Palma and his grandson Germain, 11 years old, eat less food to leave more for the two younger children. Germain's once-thick hair is turning yellow.

"They need it more than me," said Germain, who weighs 50 pounds instead of 70 pounds, about the average for a boy his age. Nearby, his brothers, Cesar Augusto, 10 years old, and Angel Jose, age 4, try to fly a handmade kite.

"I am hungry," Germain said. "I feel like a pain in my belly." Asked his favorite meal, he said, "Arroz con pollo," rice and chicken, which he last ate in 2015.

### Bits of corn or bread

At the Domingo Luciani Hospital in Caracas, Ms. Planchart cried when she recalled the ways she tried to feed baby Jean Pierre and her four other children. She went through trash bags, searching for bits of corn or bread free of maggots. "I'd stand there and say, 'I can't do it,'" she said, worried of being seen by neighbors. "I said to myself, 'If I don't do it, this, what will I take to my children?'"

Ms. Planchart had a string of jobs: cashier, hair salon worker, cook. Then the work disappeared; inflation and food shortages made everything worse. At one point, she said, a neighbor cooked a dog.

As she watched Jean Pierre grow thinner and then stop moving, she decided to seek help from Dr. Machado and other malnutrition experts at the hospital. The doctors don't have vitamins, antibiotics or serum for sick babies.

"We're not feeding him well in this hospital," Dr. Machado said. "No boy like this is going to get better with bananas and cheese."

Ms. Planchart, meantime, rocked Jean Pierre in her arms, a balm for both.

"He hasn't fully recovered," she said of her baby, who now has chickenpox. "The idea is for him to get his weight up and that we get his metabolism to where it should be. But he's delicate."

—Maolis Castro in Caracas contributed to this article.

### Venezuela's High-Speed Crash

Once Latin America's richest country, Venezuela now has the world's highest inflation rate, making it nearly impossible for families to make ends meet. The economy has contracted by more than a quarter since 2013.

**Gross domestic product\***, change from a year earlier



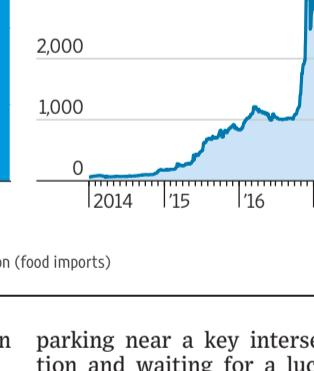
\*estimates start in 2016

Sources: IMF (GDP); Torino Capital (inflation); DolarToday (currency); World Trade Organization (food imports)

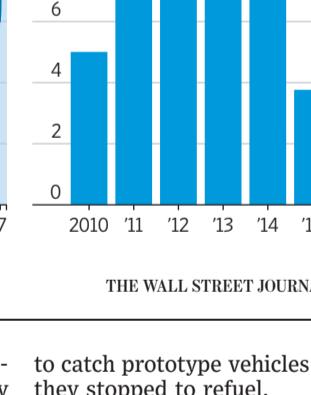
**Estimated monthly inflation, seasonally adjusted**



**Black market currency value, Bolivars to a dollar**



**Food imports**



THE WALL STREET JOURNAL.

Sweden," he says. "There was always a lady from the U.S."

In Arjeplog, roughly 500 miles northwest of Stockholm, "There are more snowmobiles than women," according to an official town "Fun Facts" sheet.

The town, which also claims it posted the lowest temperature on record in any of the Nordic countries (minus 62 degrees Fahrenheit), has developed a specialty preparing tracks on iced-over lakes for car tests.

Many auto makers have secured long-term leases and made investments in nearby garages and workshop facilities. Lakeside residents rent out their homes to auto engineers during the three-month winter testing season.

Arjeplog doesn't have an official stance on car spies, says town spokesman Fredrik Westerlund. "We realize that they sometimes are a nuisance or worse, and that they sometimes are part of the business."

Those mixed feelings are shared by Johan Fjellström, an Arjeplog resident and founder of a local print newsletter that until several years ago featured a regular column with

mug shots of car spies to warn test drivers.

"The spies are back!" Mr. Fjellström wrote in a Facebook post in December.

Local businesses in the past sometimes circulated lists of photographers and their vehicle license-plate numbers, townspeople say, to hotels and auto makers. "We thought of spy photographers as the most wanted, heinous criminals," says Mr. Fjellström.

Car spy photographers have a difficult job, even without vigilantes pursuing them. They lug telephoto lenses while trekking among sand dunes and rocky ledges or plowing through snowy woods in white snowsuits. "We try to blend in as much as we can," says Brenda Priddy, a semiretired U.S.-based car spy photographer. Scoping out Death Valley, she says, requires several gallons of water, a wide-brimmed hat and thick-soled shoes that don't melt on the hot sand.

Getting to winter sites, she says, can require a snowmobile or cross-country skis.

During test season, Mr. Mau drives about 80 miles from his home to Arjeplog, sometimes

parking near a key intersection and waiting for a lucky break. Other times, he hikes through knee-deep snow in white camouflage into the woods to a test track's edge.

His cover was blown once by a rival dressed in bright red, who followed Mr. Mau and then strode onto the test-track ice in plain sight.

Photographers say they learned to keep a low profile by using fake names to book hotel rooms and avoiding sit-down restaurants. Townspeople sometimes threatened to report them to local police or car companies, say Mr. Mau and some locals.

Lore among auto-industry officials in the area has it that someone found a motion-sensing camera installed on a gas pump by an unknown car spy

During test season, Mr. Mau drives about 80 miles from his home to Arjeplog, sometimes

to catch prototype vehicles as they stopped to refuel.

Mr. Fjellström kept a close watch for interlopers. "There is a car spy on the prowl in Arjeplog right now!" he wrote in a 2013 post after being tipped off by a car tester. "He has been seen near Porsche in Kuorrokveik and also by the kindergarten."

A Swedish author, Jakob Mjöbring, was so fascinated by photographers' clashes with residents and car testers that he wrote a 2016 novel, "Köld" (translation: "cold"), in which police investigate the murder in Arjeplog of a car spy tied up naked in a vehicle and left to freeze with eyelids propped open.

"I was fascinated by these cars," he says, "and the idea of paparazzi sneaking around, risking getting beat up."

The cold war in Arjeplog appears to have thawed somewhat in recent years. Some residents say they feel more secure that the auto makers aren't going to leave even if there are car spy photographers lurking.

Mr. Mau says he no longer gets dirty looks from towns-

people. Stefano Vigolo, recently appointed manager of the company that runs the local Hotell Silverhaten, says there is no ban on car spies at the hotel today, "but there might have been at one time."

Even Mr. Fjellström in an introspective moment in February posted a semi-confessional saying he "did something unusual" by helping a car spy transfer images of a prototype car.

"This made me think of the moral dilemma of such action," he wrote. "If I help a spy photographer I might irritate someone in some car company, but on the other hand pictures of new models serves the interests of people looking to buy a new ride."

Meanwhile, some auto makers have figured out how to turn the tables, some car spies say, using snooping photographers to drum up a bit of free publicity.

"Sometimes I know they've spotted my hiding place, but then a few minutes later a really hot prototype comes rolling out," Mr. Mau says. "That's when you know they want the images out there."

# U.S. NEWS

## Labor Shortage Squeezes Builders

By PETER GRANT

A growing labor shortage in the commercial real-estate industry is driving up the costs of some projects and could complicate lawmakers' plans for a \$1 trillion infrastructure-spending program, contractors say.

"Ever since we came out of the great recession, many folks in our industry have been saying: It's coming, it's coming, it's coming," said George Nash Jr., director of preconstruction for Branch and Associates, a Roanoke, Va., contractor. "Today the problem is there."

Construction businesses, excluding those building single-family homes, employed close to 4.2 million workers in April, up 3,000 from March, according to an analysis by the Associated Builders and Contractors, a trade group. That was the highest employment level since November 2008, though still below the record 4.4 million workers employed in the nonresidential construction segment in February 2008, the analysis said.

Labor pressures are increasing in the construction industry as hiring overall accelerates across the U.S. economy. On Friday, the Labor Department reported that nonfarm payrolls rose by a seasonally adjusted 211,000 in April and the unemployment rate fell to 4.4%, the lowest level in almost a decade.

Among the hot pockets of construction activity are office development in New York and condominium and rental-housing projects in downtown Los Angeles, Boston and Miami. Big infrastructure projects include the modernization of Chicago's O'Hare International Airport and a tunnel in Seattle that will replace a viaduct vulnerable to earthquakes.

**Construction labor costs are rising an average of 4% to 5% annually.**

Contractors throughout the country said that as the workload grows, they are beginning to see shortages of electricians, carpenters and other subcontractor laborers.

When they bid out jobs two years ago, several contractors said, two or three subcontractors would typically respond for each part of the project. Today they are running into situations in which there is only one bid, making it harder to hold down costs, they said.

Subcontractors said they also are feeling the pinch. Gaylor Electric Inc. of Indianapolis has opted against bidding on some jobs "because we didn't have the people," said Chuck Goodrich, the company's president.

Gaylor has added 70 employees in the last two months but still has about 200 empty positions, Mr. Goodrich said. "The economy is growing, and construction jobs need to be filled," he said.

Construction labor costs are rising an average of 4% to 5% annually, outpacing inflation, according to Anirban Basu, chief economist of the Associated Builders and Contractors. "The situation is going to get worse," he said.

Overall, the association said the industry needs 500,000 more workers. The trade group estimates 600,000 additional workers would be needed for the \$1 trillion in infrastructure building and improvement for which President Donald Trump has said he would seek funding.

The Trump administration has been preparing a major workforce development initiative as part of its infrastructure program, a White House spokesman said.

Industry executives said the scarcity stems partly from many workers idled by the downturn finding other jobs and retiring. Also, fewer young people are choosing construction as a profession.

## Yates to Testify in Russia Inquiry

Former acting attorney general to shine public light in Senate panel hearing

By DEL QUENTIN WILBER AND BYRON TAU

Testimony from a former acting attorney general on Monday is expected to be a compelling public moment in the so-far largely secretive investigations into Russia's alleged interference in the 2016 election.

Sally Yates, a top Justice Department official in the Obama administration, was serving as President Donald Trump's acting attorney general when she told a top White House official about conversations between former national security adviser Mike Flynn and a Russian diplomat. The White House has said Ms. Yates provided a "heads up" to the official, White House counsel Donald McGahn, about the conversations, without describing the nature of them.

Ms. Yates, who had access to intelligence transcripts of the calls, will say rather that she



Ms. Yates, former deputy U.S. attorney general, was fired in January.

told Mr. McGahn explicitly that Mr. Flynn hadn't been truthful about the conversations and that his actions could put him at risk of being compromised by Russian intelligence services, according to people familiar with her account.

Ms. Yates will be joined by James Clapper, Mr. Obama's director of national intelligence, at a hearing before a Senate Judiciary subcommittee chaired by Sen. Lindsey Graham (R., S.C.) to examine alleged Russian interference in the 2016 election. Mr. Graham

last year urged congressional leaders to create a special committee to investigate Russia's role in the U.S. election, but they declined.

The Federal Bureau of Investigation is leading a probe into any potential collusion between members of the Trump campaign and Russian operatives. The House and Senate Intelligence Committees are also conducting high-profile inquiries into any Russian interference, but those investigations have been slow to gain momentum. Mr. Graham, more

than most other Republicans, has been outspoken in calling for an in-depth examination of Moscow's actions.

"Based on evidence presented by our intelligence and law enforcement communities, I believe Russia interfered in our election," Mr. Graham said in a statement late last week, adding, "I think it's important we hold them accountable."

Russia has denied any election interference, and Mr. Trump has rejected allegations that anyone connected to his campaign coordinated with Russian officials to influence the election.

The hearing is likely to focus intensively on the actions of Mr. Flynn, who isn't testifying, and Ms. Yates. Mr. Flynn spoke to the Russian envoy, Sergei Kislyak, on Dec. 29, the same day the Obama administration levied sanctions on Moscow for meddling in the U.S. election. U.S. intelligence intercepts of Mr. Kislyak's cellphone revealed that the two discussed sanctions, according to former U.S. officials familiar with the calls.

Ms. Yates is expected to testify that she expressed alarm to Mr. McGahn about the conflict between what transpired in the

phone calls and how the White House was describing the conversations, according to people familiar with her account.

Vice President Mike Pence, relying on Mr. Flynn's assurances, had told CBS that Mr. Flynn hadn't discussed sanctions. After the nature of the contacts and Mr. Flynn's misleading of Mr. Pence became public, the national security adviser was forced from his job on Feb. 13.

The White House has said Mr. McGahn informed Mr. Trump about the matter, and the president ultimately asked Mr. Flynn for his resignation.

The general outlines of Ms. Yates's account of events have been reported, but Monday will be the first time she airs them in public. Ms. Yates, deputy attorney general under Barack Obama, was elevated to acting attorney general following the departure of Attorney General Loretta Lynch at the end of the last administration.

Ms. Yates, who couldn't be reached for comment, was fired Jan. 30 for refusing to defend Mr. Trump's executive order on visas and refugees, which has since been suspended by the courts.

### ADVERTISEMENT

## REFORM PACKAGES LEAD TO HIGHER ECONOMIC GROWTH

President Joko Widodo has decided to further improve the business climate in Indonesia by introducing a number of deregulation packages. The implementation of these economic reform packages are considered crucial in boosting the country's competitiveness in the global economic landscape in order to achieve a higher economic growth.



Indonesia Investment Coordinating Board

Since the first deregulation package was released on September 9, 2015, there has been significant progress in Indonesia's business climate. One of the key performance indicators to demonstrate this progress is the World Bank's Ease of Doing Business Index. Indonesia saw its ranking climb to 91 this year, up by 15 places from 106 in 2016. This progress is essential in attracting foreign direct investments from within the ASEAN Economic Community, as well as key economic players globally.

The government has been driving and accelerating efforts in restructuring Indonesia's economic infrastructure by introducing innovative breakthroughs through multiple reform initiatives. Through these economic packages a breakthrough is expected with a focus on providing solutions for both short term and medium term goals.

The aim is to trigger economic growth by increasing the industry's competitiveness in global markets, developing collaboration among the SMEs, improving intra-regional trade by clearing bottlenecks in the distribution channels, stimulating and boosting the Indonesian tourism sector, and last but not least improving the quality of the fishermen's livelihood.

Indonesia's economic growth stood at 4.79% in 2015, slightly increased to 5.02% in 2016, and is estimated to further increase to 5.20% in 2017 according to the World Bank. This increase indicates a stable and solid future growth trend.

The ultimate goal of these economic packages is to support the country's economic growth. Thus, the intermediary measures vary from streamlining business procedures, including import and export, to expanding sectors to become attractive investment opportunities for the global business community.



"We will continue our efforts to open the economy through reforming and simplifying our laws and regulations," said President Joko Widodo in an address to the nation in May 2016.

Six areas of reforms have been identified and incorporated within the economic packages. The changes that are set to help further stimulate the country's economy include improving the investment climate, boosting industrial competitiveness, increasing logistics efficiency, promoting tourism, stimulating exports, and strengthening people's purchasing power.

### Improving investment climate

Enhancing a favorable investment climate is the very first priority of President Joko Widodo. On the third day following his inauguration, he paid an impromptu visit to BKPM (Indonesia Investment Coordinating Board) requesting the institution to introduce revolutionary changes within the investment administration. As a result, a one-stop solution combining convenient online services and fast three-hour investment processing time was introduced and launched by the country's Vice President, Jusuf Kalla, to provide an end-to-end investment service.

The revolutionary service reduces the time required to obtain eight licenses, namely an investment license, tax identification number (NPWP), articles of association, company registration number (TDP), import identity number (API-P), custom identity number (NIK), plan to hire expats (RPTKA), and license to employ expatriate workers (IMTA), plus one land booking. A process that usually takes up to 23 working days has been compressed to three-hours. Through continuous improvements and expansions, the service succeeded in facilitating more than USD 16 billion in investments since its inception on January 11, 2016.

To further improve the investment climate, the government has collated 141 lines of businesses in the negative investment list. All of these packages succeeded in eliminating the major impediments faced by businesses toward investment and growth. In the past, Indonesia faced tremendous challenges in expanding its economy which was caused by lengthy bureaucratic and non-transparent processes and procedures.

### Boosting industrial competitiveness

President Joko Widodo's administration realized that openness and transparency are keys to achieve competitive excellence in the current globalization era. Deregulation processes have taken place and the government has managed to deliver 99% of the recommended policies, paving the way for the country to become a significant economic player within the region and globally.

Significant progress has been made, exemplified in the reformation of energy cost policy by lowering energy costs such as of fuel and electricity. Following the initial packages, an economic reform package was introduced to implement the minimum workers wage formula in a manner that supports appropriate compensation policies in all types of businesses. This package also supports increased access to commercial loans by small businesses and SMEs.

So far, the response has been progressively positive. Using the fourth package as guidance, fourteen provincial governments have implemented the minimum wage policy i.e. Riau Islands, West Kalimantan, West Nusa Tenggara, West Sumatera, Jambi, Aceh, South Kalimantan, Banten, Gorontalo, East Nusa Tenggara, West Java, Bali, North Sumatera, and Bangka Belitung.

In support of the other four packages, the fifth package aims to help the revaluation of assets in order to provide lower tax provisions for business owners.

### Increasing logistic efficiency

Efficiency in logistics will have a substantial impact both on the investment climate and industry competitiveness in Indonesia. In this area of reform, the government launched a deregulation package with a focus on increasing development of the Special Economic Zones (SEZ) and established 12 bonded logistics centers.

In the bonded logistics center, customs clearance processes were simplified, allowing the paperwork for both exports and imports to be processed directly. The new scheme will reduce cost and time, and ensures a smooth flow in the distribution of goods. Smooth and seamless logistics distribution is a key to support a positive growth in investments and industry.

A good example is the Bonded Logistics Center in Cikarang, West Java, which focuses on the import and storage of cotton as the raw material for manufacturing textile products. The textile industry has an overall dominance in the Cikarang Industrial Estate.

Furthermore, the government launched a 14th package which in addition to supporting e-commerce, also aims to provide better logistical services for the shipping industry. The package addresses the President's concern on seaport dwelling time - time spent in queuing for the ground handling process, including discharging of cargo. Several measures were undertaken to significantly improve the dwelling time. Now, in main seaports such as Tanjung Priok and Tanjung Perak, the dwelling time has been reduced from 6.5 days to 2.8-2.9 days. However, the President has set a target of a maximum of two days dwelling time in 2017.

### Promoting tourism

This economic reform package aims to support a significant progress in promoting tourism. Deregulation in the negative investment list is creating opportunities in the tourist industry as a prospective investment sector by opening up 18 lines of businesses in tourism for foreign investments.

Hence, three out of the 18 Special Economic Zones were designated as tourism clusters. Infrastructure and supporting facilities were built to attract both domestic and foreign investors. Concurrently, the government launched 10 'new Bali' campaigns for top tourist destinations in Indonesia. These sites are Toba Lake



(North Sumatra), Tanjung Kelayang (Bangka Belitung), Tanjung Lesung (Banten), Kepulauan Seribu (DKI Jakarta), Borobudur Temple (Central Java), Mt. Bromo and Mt. Semeru (East Java), Labuan Bajo (East Nusa Tenggara), Mandalika (West Nusa Tenggara), Wakatobi (Southeast Sulawesi), and Morotai (North Maluku).

In general, Indonesia's tourist industry grew by 10.30%, compared to the overall 5% growth recorded in the ASEAN region, and 4.40% globally. The tourism sector is the new spearhead to boost investment in Indonesia. The Ministry of Tourism and the Indonesian Investment Coordinating Board (BKPM) are collaborating to improve the infrastructure with the goal of attracting further investments in the tourism sector. Tourism is seen as a prime sector for domestic and foreign investors.

### Stimulating exports

Supported by the reform and deregulation packages, export is to become one of the key components to drive the country's economic growth. In order to stimulate exports, the government issued an eleventh package providing credit incentives for businesses in the export industry.

One recent success story was the export of 150 passenger trains to Bangladesh valued at USD 72.3 million supported by Eximbank. Another example came from North Sulawesi, which exported 167 tons of coconut flour produced by a small and medium enterprise. A new center of growth is envisaged by increasing the capability of local companies and foreign investor producers in Indonesia who export their products. The impact will be a multiplier effect that would eventually stimulate growth throughout all the regions in Indonesia.

Other measures and packages introduced by the government consist of simplifying import regulation for bringing in raw material for the pharmaceutical industry. The access to a flow of raw materials will encourage the industry to produce medicines locally and eventually allow the export of medicines at competitive prices. This will enable a reduction of expensive imported medicines produced overseas while boosting revenues of non-oil and gas exports.

### Strengthening people's purchasing power

With the rapid growth and development in the investment climate, the government takes into consideration the impact on the people's purchasing power. The ambitious development strategy has a counter effect on the purchasing power of the people caused by a widening wealth gap.

Indonesia's concerted push to create a welcoming, safe and easy-to-navigate business environment and the positive sentiment it has garnered from foreign investors thus far is a testament to the 14 packages enacted throughout 2015 and 2016. The 15th set of economic packages related to logistics will mark the introduction of the next set of economic deregulation packages.

The goal of these deregulation packages is to accelerate economic growth and secure its sustainability well into the future. Through these economic growth initiatives, the government demonstrates its fervent commitment for Indonesia to become the most stable, reformed and safe destination for foreign direct investments.

# LIFE & ARTS



A guide led new employees of TDK-Lambda, below, through the mountains of Japan last month for a session of 'forest bathing,' to derive health benefits from nature, such as the Fuki shoot, below.

## HEALTH

# Turning to Trees to Curb Stress

'Forest bathers' immerse themselves in nature to derive health benefits from chemicals emitted by plants and trees

BY SURYATAPA BHATTACHARYA

Shinano, Japan

**ON A TREK** through a snowy western mountain range, a forest guide points to a grove of evergreen Japanese red-cedar trees, and hikers gather around to take deep breaths.

The hikers are actually forest bathers, part of a growing movement that believes immersing oneself in nature and in the chemicals plants and trees emit has unexpected medical benefits. The trip is part of their orientation as new employees of a maker of power devices.

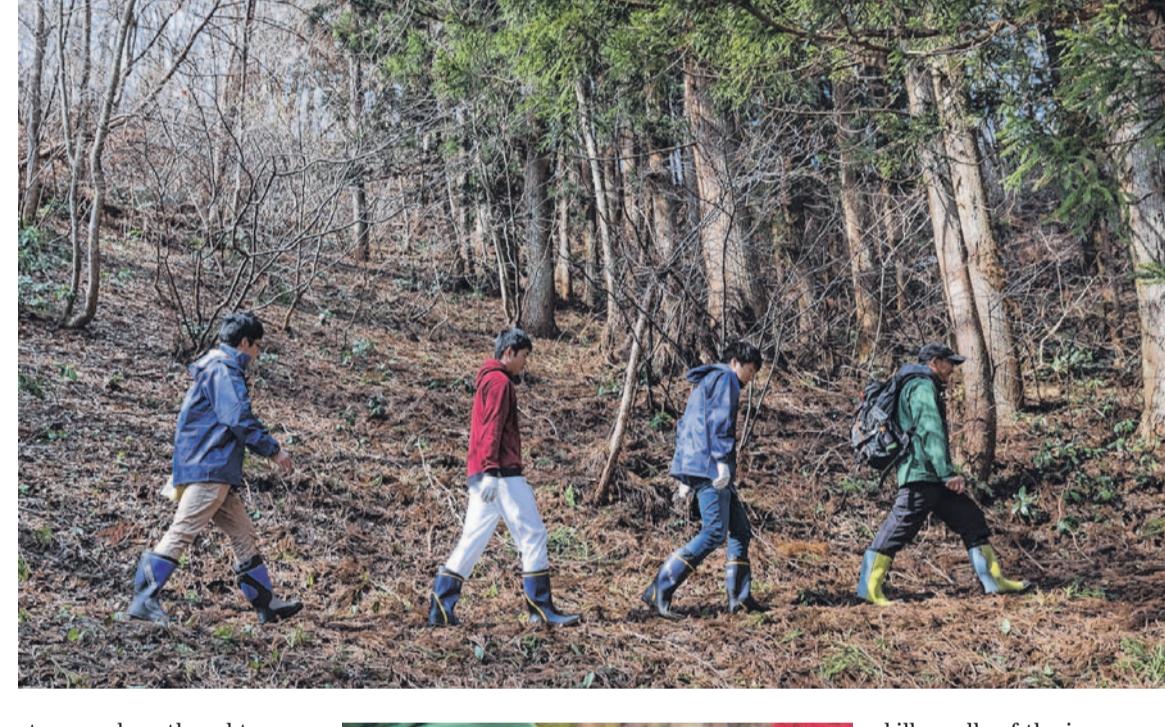
"Even if you can't smell them, they are there," the guide, Kazuhiro Kouriki, says of phytoncides, or chemicals emitted by some plants to protect themselves from insects and germs. Studies suggest that taking in the air around certain kinds of trees lowers stress and increases focus, Mr. Kouriki says.

The research isn't definitive, but from Japan to Hollywood, forest bathers swear by the therapeutic effects of trees. Justin Bieber is a fan, posting photos of himself on Instagram enjoying nature. Gwyneth Paltrow recommended it in her newsletter, and some resorts in the U.S. have started to offer forest-bathing programs.

Japan's government has spent millions of dollars promoting forest bathing, a term translated from the Japanese *shinrin-yoku*, and it funds research into the possible benefits. Some 62 forests and wooded paths have passed a gauntlet of tests to be designed therapeutic by the Forest Therapy Society, a Tokyo-based nonprofit.

Local authorities sometimes organize checkups by medical doctors under a canopy of cedars, while companies send new employees into the woods for a therapeutic stroll ahead of the grinding workload new hires here face.

"At any company, people feel



stress and we thought perhaps we could keep our new recruits better and longer if we gave them the opportunity to learn what stress is and how to cope with it," says Chieko Uchiyama, a personnel manager at TDK-Lambda, the TDK Corp. unit that organized the recent mountain trip.

Scientists studying forest bathing focus on the compounds trees emit. They reason that if swallowing certain plants have medicinal effects—aspirin, for example, is derived from a substance in willow bark—breathing in the compounds may similarly be therapeutic.

A study published last year by Qing Li of Nippon Medical School in Tokyo had a group of 19 middle-aged men walk through an urban area in Tokyo and, a week later, take a forest walk. The men had



higher levels of a fat-burning hormone after the walk in the forest.

Earlier studies, including one published in 2008 in the Journal of Biological Regulators and Homeostatic Agents, analyzed findings of forest bathing from 13 female nurses between ages 25 and 43. It showed exposure to phytoncides increased the activity of antimicrobial proteins released by

killer cells of the immune system. That could have implications for research into anticancer proteins, Dr. Li says, although little follow-up has been done. In 2018, he will embark on a multi-year study to measure the effect of forest bathing on high blood pressure and mild depression.

"My goal is to get it listed as therapy, so it can be prescribed," Dr. Li says.

For his studies, he has struggled to recruit sub-

jects who are willing to travel several hours from Tokyo and have their blood taken after some time in the mountains. Local volunteers take regular walks in the forest or have some exposure, so the results "are not as dramatic," he says.

Some believe forest bathing was imported to Japan from Europe and adopted by the government in the 1980s, while others trace the

practice to Japan's native Shinto religion, which advocates communing with nature.

In Yoshifumi Miyazaki's office at the environmental-science department of Chiba University near Tokyo, a photo shows him speaking with the Crown Prince Naruhito and Princess Masako. The heir to the Japanese throne and his wife stopped by the university last year for a presentation on the physiological effects of flowers, forests and trees, in particular the *hinoki*, a Japanese cypress.

For more than a decade, Dr. Miyazaki has studied measures like heart-rate and cortisol levels to determine whether breathing in compounds from *hinoki* oil can affect stress. His most recent research looks at how to reduce stress in wheelchair-bound seniors in need of rehabilitation so they can do physical therapy better.

He says he wants to recreate the outdoors for people too old or sick to venture out. "It will be a way to raise the quality of life," says Dr. Miyazaki, whose business card is printed on a sliver of *hinoki*.

Back in the mountains, Tsubasa Funanami, a 22-year-old TDK-Lambda new employee, looks up at the 60-foot-tall trees and takes several deep breaths. Before the trip, he had questioned whether there was much point in forest bathing, but now he stares at the cluster of cedars and smiles.

Mr. Kouriki, the guide, then leads the forest bathers to the shore of Lake Nojiri. He pulls out a stethoscope and invites the trekkers to take turns listening to underwater sound. Mr. Funanami places the stethoscope's chestpiece against a rock submerged in the lake and listens.

"I've never been there but it sounds like space," he says. Moments later, seated on a rock and staring out at the lake, he adds: "I feel like time is flowing slower than usual."

—Chieko Tsuneoka contributed to this article.



Tomoya Oya, left, took a nap during the three-hour forest-bathing session last month; on the same excursion, his colleague, Shota Igarashi, listened to underwater sounds through a stethoscope.



## LIFE & ARTS

**WEEKEND CONFIDENTIAL** | By Alexandra Wolfe

# Sam Zell Looks Back

The notoriously blunt real-estate magnate on the lessons that he's learned

**FORTY-FIVE MINUTES** into our interview, billionaire real-estate investor Sam Zell uses the F-word. He is a bit surprised at himself, having kept it clean up to that point. "I've done really well!" he says. Sometimes when he's on a panel, participants who know him bet on how long it will take before he curses.

Mr. Zell, 76, built one of the biggest real-estate empires in the country; he is especially known for turning around distressed properties and troubled assets. The notoriously blunt businessman shares the ups and downs of his career and the lessons he's learned in business—with just a little profanity—in a new book, "Am I Being Too Subtle?"

Worth an estimated \$5 billion, Mr. Zell has also been involved in such industries as health care, energy and media. Over his long career, he says, "the thing I'm most proud of is nobody has ever left a meeting with me and said, 'What do you think he meant?' A lot of times you don't agree, and a lot of times...you could be irate, but you're not going to come back and say, 'What did you say?'"

The book, he says, is an attempt to "lay it all out there" for his three children and nine grandchildren. He talks about the importance of being hungry and contrarian. The most successful people go right when everyone else goes left, he says: "These are the people who excelled beyond belief, and did so because they in effect didn't follow conventional wisdom."

The advice on offer in his book includes: be ready to pivot, stay loyal and ethical, and obey what he calls the "11th Commandment"—not taking oneself too seriously. He writes that a successful person always says "no problem" when faced with a challenge or difficult request.

Mr. Zell learned to take risks in part from his parents, Jews who escaped from Poland just before the Nazis bombed their hometown. His father, a grain merchant, and his mother, a homemaker, moved to Seattle and then to Chicago, where Mr. Zell was born. He remembers once setting up a chess



SAVERIO TRUGlia FOR THE WALL STREET JOURNAL

board with the pieces arranged in a way that he thought would stump his father—who checkmated him in one move, shrugged and left the room. "I was crushed," writes Mr. Zell. "He didn't make anything easier or softer. That just wasn't who he was."

Mr. Zell took to entrepreneurship early. At age 12, he bought Playboy magazines for 50 cents at a newsstand in the city and sold them to friends in the suburbs at a steep markup. As a student at the University of Michigan, he developed a taste for real estate. When he found out that a friend's landlord was planning to tear down two houses and build an apartment building for students, he and his friend pitched the landlord on letting them run it. The landlord agreed. Mr. Zell and

his friend designed the interiors of the units and managed the building after it was done—later adding two other buildings that the landlord built.

After earning his undergraduate degree from Michigan in 1963 and his law degree there three years later, Mr. Zell went to work for a law firm in Chicago. He lasted four days before deciding to go into business for himself. In 1968, he started the predecessor to his current firm, the privately held Equity Group Investments, which has stakes in a mix of private and public companies. His deals within the past few years include selling off more than 23,000 apartments controlled by his firm Equity Residential for \$5.4 billion to Starwood Capital Group in 2015.

One of his biggest stumbles was his 2007 leveraged buyout of the Tribune Co., a media group including the Chicago Tribune and Los Angeles Times newspapers, Tribune Broadcasting and a number of radio stations. It declared bankruptcy less than a year later. (The company emerged from bankruptcy in 2012 with new owners and a new board. Mr. Zell lost his \$315 million investment and is no longer involved in the company.)

Tribune employees criticized him for cutting jobs while rewarding executives with bonuses, for saddling the company with debt and for blurring the line between advertising and editorial. Mr. Zell says that the main problem was a culture that said, "But we've always done it this way," in response to any suggestion of change.

Mr. Zell lives mainly in Chicago with his wife, Helen, but they also have homes in New York and Malibu, Calif., among other places. He spends a lot of his time reading both news and novels.

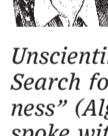
He wears jeans to work—something he's done since the 1960s. "If I'm comfortable with who I am and I'm comfortable with the decisions I've made, then I don't need a suit and tie to protect me," he says. "To a lot of people, a perk is the bathroom key, but to me, the real perk is freedom."

That is why he likes riding motorcycles. He has a group of friends he rides with called Zell's Angels who take trips around the world to places such as Poland, Abu Dhabi and Chile. "That's what riding a motorcycle is—freedom," he says.

**PLAYLIST** | By Paula Poundstone

## STANDUP AND SALAD

Despite mystifying lyrics, 'Chuck E's in Love' cheered a budding comedian bussing tables



**Paula Poundstone**, 57, is a comedian and actress. She is the author of "The Totally Unscientific Study of the Search for Human Happiness" (Algonquin). She spoke with Marc Myers.

At 18, I was on my own and busing tables in 1979 at a salad-bar restaurant in Boston. The concept of making your own salad was just catching on then. That's where I first heard Rickie Lee Jones's "Chuck E's in Love."

The best part about my restaurant job was Mary, the manager. She had this great work ethic and a motivating sense of humor. She made everyone laugh, and everyone worked hard for her.

A cassette stereo system provided the restaurant's music. One morning, when I was setting up tables, I heard "Chuck E's in Love" on the radio. I went out and bought the album on tape so we could hear the song every day before the restaurant opened.

"Chuck E's in Love" is a happy song. It opens with a strong beat and a slinky, twangy acoustic guitar. Then Rickie Lee Jones's raspy voice comes in and sings the song's lyric, something about Chuck E being in love. I loved Rickie Lee Jones's quirky articulation. It was both rural and street and hard to pin down. But it was tough to sing along with her. I could never figure out what she was saying.

Even when I read the lyrics, they didn't make much sense. Lines like, "And how come he turn off the TV. / And he hang that sign on the door?" But when it was time to sing the chorus, "Chuck E's in Love," I'd wail away, usually just before she did.

Eventually, Mary and many of my work friends moved on. I was heartbroken. Clear-



RICKIE LEE JONES performing in 1979.

**FOR MANY PEOPLE** who grew up in the 1970s, mom had a quick remedy for an upset stomach: a few sips of soda. Those little bubbles and hit of sugar were said to alleviate the queasy feeling that comes from eating a massive meal or not-too-fresh fish. Is there any science to back up this claim? One expert, Alexandra Gutierrez, a gastroenterologist at **Washington University in St. Louis**, explains how the stomach "feels" upset and the historic significance of the kola bean.

### Gut Check

Humans don't have pain receptors in their gastrointestinal (GI) tract. "The only thing your stomach, intestines and colon feel are distention," says Dr. Gutierrez, who specializes in inflammatory bowel disease. The stomach should only hold about 8 oz. of food at one time—though it has the ability to distend to carry a full gallon. After gulping down a meatball sub, most people become over-full and bloated, which feels like pain or queasiness. A meal high in fat also decreases motility, further enhancing that stuffed, nauseous sensation.

"If you eat bad or poorly prepared food with toxic bacteria in it, your body will eject it one way or another. But if you overeat, you'll likely have gas and distention, which can feel awful," says Dr. Gutierrez.

The only way to eradicate that

feeling is to get the food out of the stomach and into intestinal tract through chemical breakdown and physical movement of the food.

### Mom's No-So-Scientific Cure

There is no medical evidence to suggest that drinking a carbonated soda will calm the stomach, says the medical school professor, but the power of persuasion can be strong. Plus, there is anthropological lore buried in the

age-old remedy: Coca-Cola was originally made with real kola beans, which some African cultures would chew during celebrations where big meals were served.

"The berries are naturally caffeinated, and caffeine activates the GI tract," says Dr. Gutierrez. These days colas no longer use kola beans, and there are other ways to get GI-tract-jumpstarting caffeine, such as coffee," says Dr. Gutierrez. There may also be an upside to the effervescence: as those tiny bubbles pop, they may encourage motility by triggering the GI tract to move into high gear. Still, she says, the nausea-relieving benefits might be offset by the high volume of sugar in a typical soda.

### Nature's Cure

The feeling of an upset stomach can also be caused by bacteria-induced inflammation that might be triggered by various medications, and there are plenty of natural anti-inflammatories that can take the place of sugary, fizzy sodas. Turmeric or saffron can be boiled and drank as a tea to help bring down distention. Fresh ginger sliced into water or club soda should also soothe the stomach.

Ginger ale typically doesn't contain real ginger, though ginger beer might (check the label), and could help.

When her stomach doesn't feel quite right, Dr. Gutierrez, whose license plate reads "GUT DOC," will typically grab an over-the-counter antacid like Tums, Zantac or Pepsid, all of which block the histamines that cause inflammation. If it is available in the drugstore, the doctor will instead take Gaviscon, a British antacid that coats the stomach. In a pinch, she'll grab a caffeinated soda. "Anything to help move things along and empty the stomach," she says.



Email questions to [burning@wsj.com](mailto:burning@wsj.com)

## OPINION

### REVIEW & OUTLOOK

## Ending ObamaCare, Part One

The media template for covering the 115th Congress apparently goes like this: When Republicans fail to pass a bill, they're doomed. But when they succeed, they're also doomed. Thus the same media sages who said the House could never repeal ObamaCare are now saying that the replacement the House passed Thursday can't pass the Senate.

The wish is the mother of this analysis, and predictions about the Senate are worth about as much as the guarantees of President Hillary Clinton. The reality is that the House success, however narrow the 217-213 vote, is the first essential step toward fulfilling the GOP's top campaign promise.

While the job was messier than it should have been, the result shows that Republicans can hold a governing majority despite unprecedented media, interest-group and Democratic hostility. The majority spanned the GOP conference from Michigan libertarian Justin Amash to moderate Carlos Curbelo, who deserves special notice for political courage considering his swing Miami district. If you doubt this is a big moment, imagine the media obituaries for Republicans if they had failed.

Credit goes to House leaders for sticking with their essential product and working around the edges to cajole a majority. The bill that passed is remarkably similar to the one that GOP leaders first introduced. The changes demanded first by the Freedom Caucus and then some moderates are tweaks that don't alter the reform's core architecture.

The bill includes deregulatory steps to pave the way for a variety of insurance coverage that more people can afford; the largest entitlement reform in decades by devolving control over Medicaid to the states; a \$1 trillion spending cut over a decade; tax credits for individual insurance that begin to equalize the tax treatment of health care for individuals and businesses; and the repeal of ObamaCare taxes totaling \$900 billion over 10 years.

The bill doesn't repeal all of ObamaCare because it can't without Democratic help under the Senate's budget rules. But the bill marks a giant step away from the Democratic march to government-run health care, which is why the political and cultural left have been so vitriolic in their denunciations.

The Senate will now put its stamp on the policy, and no doubt there will be many perils of Rand Paul-like moments with only a 52-seat GOP majority. The House bill will change, but reporters who think it is doomed should get off Twitter and make some calls. Majority Leader Mitch McConnell has been counting votes and calculating

### House Republicans take a giant step toward better health care.

ing necessary compromises for some time.

House Republicans should be prepared that some of their planks may not survive Senate budget rules. They'll have to be flexible enough to accept the compromises that are inevitable in a bicameral legislature. The trump card, so to speak, is that this process will yield a binary political choice:

Either Members vote for what emerges from the House and Senate, or live with the status quo of ObamaCare.

That status quo is deteriorating as last week's decision by Aetna to withdraw from Virginia's health exchanges shows. Republicans need to act within weeks to clarify the rules of the individual insurance market for 2018. The lobby for the insurance industry issued a generally supportive statement on House passage, which offers some hope that congressional action can forestall a market collapse. Republicans will be blamed for that collapse whether or not they pass repeal and replace.

A word about the legislative process and political hypocrisy. Democrats and the media are howling that Republicans passed their bill before the Congressional Budget Office issued its final score of the budget and insurance impact. They have a point, but anyone voting Thursday had ample time to understand the policy choices.

As for CBO's score, really? We don't recall the same media concern for budget exactitude when Democrats rammed through ObamaCare on a partisan vote with more gimmicks than a traveling carnival. Remember the Class Act on long-term care that gilded the deficit numbers until it was quickly repealed? And don't forget the government takeover of the student-loan market that was packaged with ObamaCare because CBO said it would save taxpayers money. Now loan defaults are bleeding red ink.

\* \* \*

Which brings us to the main Republican weakness, which has been the failure to make the public case for this reform. House leaders have been preoccupied with twisting arms, leaving critics unrebutted.

President Trump deserves credit for his inside game of persuasion, and the bill wouldn't have passed without his one-on-one lobbying. But a President also has a unique public platform, and Mr. Trump needs to use it to make a sustained case for the benefits and necessity of this reform. Tweets aren't enough. He needs to make speeches that include persuasive details beyond superlative adjectives.

But these challenges wouldn't matter if House Republicans had failed last week. Now it's the Senate's turn to fulfill seven years of promises to replace ObamaCare.

## Venezuela's Missing Prisoner

Florida Senator Marco Rubio said Wednesday he had confirmed the rumor that jailed Venezuelan opposition leader Leopoldo López had been taken to a military hospital in Caracas "in very serious condition." Mr. López's wife, Lilian Tintori, rushed to the hospital, waited to see him and was told he wasn't there. Mr. López has had no visitors in 37 days, though a government lawmaker released an edited "proof of life" video.

This is another act of desperation by Venezuelan strongman Nicolás Maduro, who is facing relentless daily protests calling for the release of political prisoners and new elections. Venezuelans are living a nightmare of food and medicine shortages, and have had enough. They want Mr. Maduro gone.

Despite 34 dead since the protests began, the

### The Caracas regime should allow visitors to see Leopoldo López.

opposition isn't backing down and so Mr. Maduro has resorted to increasingly brutal tactics.

On Wednesday the National Guard drove anti-riot vehicles into a crowd in Caracas. Video caught gruesome images of an armored-truck tire rolling over a demonstrator.

Mr. López and others, such as former student leader Yon Goicoechea—who is held with three others in a windowless cell—inspire the opposition to keep going, and that is why Mr. Maduro wants them out of public view.

On Thursday Organization of American States Secretary General Luis Almagro said on social media that he too wants to visit Mr. López. If the United Nations and the Vatican wish to remain relevant in Venezuela, they will work to let someone besides his jailers see Leopoldo López.

skills who can pass a drug test isn't easy.

Last week Gregory Hayes of United Technologies and Andrew Liveris of Dow Chemical

stopped by the Journal, and both said they have or will have thousands of job openings for skilled technicians that pay a healthy middle-class wage with benefits. Both companies already devote enormous resources to training and retraining their employees, but the U.S. education system isn't preparing young people to take many of these higher-skill positions.

All of this underscores the need for more state and local apprenticeship and skill certification programs that can help workers meet these opportunities. A national certification standard that can apply across state lines would also help worker mobility, which has been declining. President Trump and Attorney General Jeff Sessions may not want to hear this, but the labor shortage also underscores the need for more legal immigration for guest workers.

Sooner or later a tight labor market can become a restraint on how much the economy can expand. Employers can raise wages, and they are increasingly doing so, to attract workers still on the sidelines. But if workers aren't available at all, which is true in parts of the U.S. and in some industries, then the only way to grow the economy is with capital investment to make each worker more productive. If Republicans want to lift GDP growth to 3% from the Obama 2%, a tight labor market makes tax and health-care reform even more urgent.

The number of Americans working part-time for economic reasons also fell by an enormous 281,000 in April to 5.3 million. These are people who would have preferred to work full-time if they could, and they are best understood as the economy's readiest available labor supply. Over the past year this number has fallen by 698,000, which means there are fewer workers for business to call on.

These macro-numbers are consistent with what we keep hearing from CEOs of large and small businesses around the country. They have openings but finding workers with the right

## The House's Job Now? Keep Calm



POTOMAC WATCH  
By Kimberley A. Strassel

Republicans finally hit a home run with the vote Thursday to pass a health-care bill that will help millions of struggling Americans. They showed that the system of old-fashioned Washington negotiations and compromise still works. They proved they can govern.

They caused heads to explode in the media and among liberals rooting for failure—always a good sign.

Yet one of Republicans' most notable successes is so far getting too little recognition. GOP negotiators embraced the only model that can ultimately see this bill successfully to President Donald Trump's desk: states' rights.

Understand, the real agony of health-care negotiations is only starting in the Senate. That process is going to be tortuous and will take at least a month. The Senate is where procedure reigns supreme, and many pieces of the bill will come under the scrutiny of the parliamentarian. It is extremely likely that core sections will be ruled out of order under the Senate's complicated process of budget reconciliation.

That includes the fragile compromise between GOP conservatives and moderates that would allow governors to opt their states out of certain ObamaCare mandates. This was the glue that finally stuck together enough House votes to pass the bill. If and when the provision is struck, the media will roll out banner headlines designed to stoke division. Once again the bill will be pronounced dead. The script practically writes itself.

It will then fall to Republicans to understand that the death of that provision is no big deal. The compromise is far from perfect—concocted, as it was, under pressure, and with dozens of competing interests in the room. The Senate offers Republicans an opportunity to do much better by building on the idea's model of states' rights.

Let's remember the entire point of this exercise, lost in the breathless reporting about which political factions are winning on any given day. The point is to restore affordable (and quality) health care to millions of hurting Americans. To their credit, conservatives among activist groups and in the Freedom Caucus have insisted all along that their efforts to modify the House bill were geared toward lowering costs.

But if that's the recipe, this compromise doesn't offer much awesome sauce. Yes, it allows governors to opt out of mandates that drive up insurance premiums. But given the political sensitivities surrounding issues like pre-existing conditions, and considering the requirements involved in opting out, how many governors would choose to do so? Texas alone does not thrive on national market make. Few Americans could benefit from lower costs.

The solution is to build on the concept of state flexibility. The Senate can insert provisions that essentially give the Trump administration blanket freedom to provide waivers to states. Those waivers can go well beyond wiping away mandates. They can provide states vast flexibility to craft fixes to their own unique problems, inspiring true health-care innovation in the process.

This is also better way, politically, to keep the sprawling conservative universe united. It would take the heat off GOP lawmakers to answer specific and explosive policy questions, such as what will happen with pre-existing conditions.

After all, Republicans would be voting for a bill that simply allows states to request permission to retool their health-care markets—in some form or fashion, as yet to be determined. That would rally activists and moderates alike to one of the few causes on which they agree: giving states freedom from an intrusive federal government and the right to forge their own destinies.

### The Senate is going to alter the health-care bill. Be open to ideas that can improve it.

Some conservatives will fret that the promise of waivers is too loosey-goosey—that the mandates should be outright repealed, and that it would be risky to leave the insurance market in the hands of President Trump's Health and Human Services Department. That argument willfully ignores political reality. Mr. Trump knows that his fate and that of the Republican Party rest on fulfilling his campaign pledge to stabilize insurance markets and bring down premiums. HHS Secretary Tom Price will be begging states to send him good ideas to sign off on.

The bigger risk is Republican egos—that House conservatives and activist groups will cling to their compromise as the only solution or will automatically reject other Senate changes. And there will be alterations: to tax credits, to the Medicaid block grants, to the high-risk pools. With sincere credit to those who diligently forged the House deal, they are not the only people in Washington capable of crafting health-care policy. If someone like Sen. Ted Cruz, who is also focused on costs, can ultimately support an altered Senate bill, that ought to count for something.

House Republicans have an obligation to their struggling constituents to embrace any idea that can make the bill better—even if it isn't their own. They also have an obligation to work as open-mindedly with the Senate as they recently did with each other. The enemy isn't fellow Republicans. It's Obamacare.

Write to [kim@wsj.com](mailto:kim@wsj.com).

## GOP Health-Care Sausage Is Good for You



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Hooray, Republicans have saved America's health-care system.

OK, we exaggerate, but there are inklings of a salvation. Let's start with pre-existing conditions. In principle, this should be a transitional problem in a world where everyone has access to

attractive, fairly priced health insurance. By giving new options to the states, the House bill would make subsidizing pre-existing conditions a general obligation of the taxpayer as it always should have been.

ObamaCare was unsustainable for many reasons, not least because it partly shifted to young customers the burden of subsidizing those who joined the pool already sick. ObamaCare went out of its way to be a bad deal for the young and healthy, who didn't sign up. The GOP fix, if adopted in the Senate, would go a long way toward letting individual premiums be fairly and attractively priced to these people.

As for those critics now pointing out that taxpayer-funded pools for the already-sick have an uneven history in some states, guess what? The problem was inadequate funding, exactly the problem already undermining the ObamaCare approach to pre-existing conditions in different form. The Republican approach at least is honest and transparent, and any failures will be easier to diagnose than when the identical failure (as it is now doing) causes ObamaCare to unravel.

Next up, the individual mandate. It remains philosophically repugnant to some GOPers, but notice something: In a world where individual insurance is fairly priced, a mandate would be less burdensome. As candidate Obama said in 2008, with a smidgen of hyperbole, if health insurance is a good deal, nobody would need to be forced to buy it.

If the Incredible Hulk were House speaker instead of Paul Ryan, Republicans might have swallowed their

tongues and quietly let the individual mandate stand, mumbling something about the perfect being the enemy of the good. Instead, they wussed out with a semi-mandate, in which anybody who lets coverage lapse and then tries to re-enter the system will pay a penalty.

The Senate might rethink. The philosophical premises of the Republican and Democratic individual mandates could not be further apart. The original Republican mandate, hatched by the Heritage Foundation in 1989, was aimed at making sure would-be free riders paid their fair share, no longer transferring their financial risk to the taxpayer or other health-care consumers.

ObamaCare turned the mandate into a tax—a way to overcharge the young, healthy and (let's face it) male to generate funds to subsidize voter blocs Democrats wanted to subsidize.

How much more realistically the once-upon-a-time Heritage mandate corresponds with research and experience showing millions of Americans won't willingly spend their own money on health insurance no matter how favorable the pricing. It also accords with a new reality: To a lot of non-customers, ObamaCare became "free" insurance—it was there if they needed it.

We'll say it again, now for the Senate's benefit: Apply a few GOP-style fixes and ObamaCare, or something like it, becomes a solution to America's health-care muddle. You could phase out every other federal program, including Medicare, Medicaid and the giant tax handout to employers, and roll their beneficiaries into ObamaCare.

All this lies in the realm of potential, we hasten to add. But it pays to take a long view. Down this road lies hope that Americans will stop channeling extravagant gobs of their income to the medical-industrial complex. Down this road Medicare could be rethought, perhaps with rational Democrats lending a hand. We know these things will have to happen anyway. Otherwise the country is bankrupt.

## OPINION

# The Great Productivity Slowdown

By Marie-Josée Kravis

**E**quity markets in the U.S. have hit multiyear highs and consumer sentiment is buoyant. Yet economic productivity remains lackluster. The Labor Department announced Thursday that worker productivity fell 0.6% since January, a much bigger drop than expected. This is neither a statistical illusion nor a hangover from the Great Recession.

The productivity slowdown began long before the financial crisis, and it has worsened markedly in the past six years. The drop-off extends to wholesale and retail trade, manufacturing, construction, utilities and a host of private and public services. Industries that consume and produce information technology and communications are not immune to the slowdown.

**It began long before the financial crisis, and it has worsened markedly in the past six years.**

From 1950 to 1970, U.S. productivity grew on average by 2.6% annually. From 1970 to 1990 it fell to 1.5%. The information technology boom of the '90s interrupted the slide, but since 2010 U.S. productivity growth has been in free fall. It is now roughly 0.6% a year. No wonder Federal Reserve Chair Janet Yellen recently called low productivity a "significant problem." Various estimates suggest that had U.S. productivity growth not slowed, GDP would be about \$3 trillion higher than it is today.

How is this happening during a technological revolution? Some think the data are wrong. Economist Joel Mokyr explained in 2014 that metrics devised for a "steel-and-

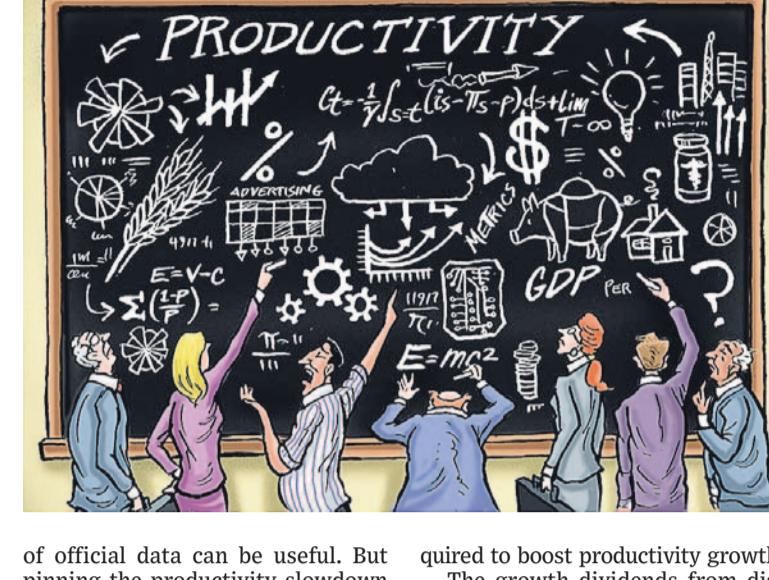
wheat economy" fail to capture adequately transformative advances in information technology, communications and the biosciences. Technology has reduced the cost of information, expanded consumer choice, and provided customization and better price comparison. This progress has been mostly missed in current statistics.

Gross domestic product also does not fully capture metrics like time saved from shopping online. Nor does it include the value of leisure and the well-being that technology provides its users. Many economists contend that properly counting free digital services from companies like Google and Facebook would substantially boost productivity and GDP growth. One of the highest estimates, calculated by economists Austan Goolsbee and Peter Klenow, stands at \$800 billion. That's a big number, but not big enough to fill a \$3 trillion hole.

On the other hand, recent studies by Brookings, the Organization for Economic Cooperation and Development and the Bureau of Economic Analysis claim that so-called free services are actually accounted for in GDP through the money spent by firms on internet ads. Still more calculations attempt to put a dollar figure on the privacy and personal data consumers give up in exchange for "free" services, as well as the time gobbled up by employees surfing the web.

Similar debates about data abound in the biomedical sector. Technology costs account for almost half the recent rise in U.S. healthcare costs, but some economists argue that official statistics don't count the intangible benefits of drugs like statins, which prevent death from heart disease. Skeptics contend that while the full benefits of such drugs may not show up in GDP today, the benefits of penicillin and other antibiotics weren't properly counted in the past either.

Debates about the shortcomings



CHAD CROWE

of official data can be useful. But pinning the productivity slowdown on a statistical deficiency ignores other factors. In his 2016 book, "The Rise and Fall of American Growth," Northwestern University economist Robert Gordon contends that the current economy fails to measure up to the great inventions of the past, and that innovation today is more incremental than transformative. He has argued vigorously that the transformative effects of technologies like electric lighting, indoor plumbing, elevators, autos, air travel and television are unlikely to be repeated. Technological innovation, he argues, will not be sufficiently robust to counter the headwinds of slowing population growth, rising inequality and exploding sovereign debt.

Former Treasury Secretary Larry Summers has resurrected Alvin Hansen's 1938 theory of secular stagnation. Morgan Stanley economist Ruchir Sharma has argued that a 2% economy is the new normal. Former Fed Chairman Alan Greenspan has repeatedly said that the growing share of social benefits and entitlements in GDP crowds out national savings and reduces investments required to boost productivity growth.

The growth dividends from disruptive technology often require time before they are widely diffused and used. To Mr. Gordon's point, economic historians respond that the Industrial Revolution did not improve British living standards for almost a century. Likewise the productivity boost spurred by the transformative innovations of the early 20th century took decades to kick in.

In the short term, as companies try to develop online capabilities while maintaining a physical presence, some costs are duplicated. At the same time, the economy is becoming increasingly bifurcated, with top firms generating substantial economic rents and leaving the rest behind. In 1990 the top 10% of U.S. firms saw returns on invested capital three times that of the median firm. Today those returns are eight times the median, suggesting economic rents far above the cost of capital for a small group of superstar companies.

It's possible that economic dynamism and entrepreneurship are no longer driving the U.S. economy. Startups are being created at a

slower pace. From 1996 to 2007 the ratio of new firms to the total number of firms oscillated between 9.6 and 11.2. Today it has dropped to 7.8. Existing firms do innovate and contribute to improved productivity, but the declining share of young firms suggests a less dynamic economy.

Concurrently, the most recent numbers from the Bureau of Labor Statistics confirm that churn in the U.S. labor market remains weak across industries, regions and age groups. People are simply not moving or changing jobs for better alternatives.

The U.S. economy is reaping some of the deleterious effects sowed by decades of weak capital spending. Since the 1970s, the compound annual growth in nonresidential fixed investment has plummeted from 12% to 3.3%. In the past decade the rate at which money turns over in the economy has also declined. The otherwise dismal first-quarter 2017 GDP report provided a slight glimmer of hope—posting a 0.4% increase in business spending. How long will it last?

The real debate is about policies that favor productivity and GDP growth. Predicting future innovation is hazardous, but deregulation and streamlined licensing requirements will facilitate job mobility. Tax reform that encourages and rewards investment should stimulate capital investment. Some form of fiscal stimulus and diverse infrastructure spending should buoy demand and efficiency. Leveraging technology to improve education and job training will help match skills and jobs across the economy. Last but not least, entitlement reform must be on the policy agenda.

These necessary policy changes provide options for improving productivity and GDP growth. Waiting for the data debate to resolve itself gets us nowhere.

*Ms. Kravis is a Hudson Institute senior fellow.*

## Theresa May Is No Maggie Thatcher

By Rosemary Righter

**U**nflashy, camera-shy, socially awkward and a hit with British voters—at least, the English and Welsh variety—Theresa May is leading her Conservative troops into battle as the self-proclaimed champion of “ordinary working people” ahead of June’s general election.

Coming from almost any other Tory, this might have been a cheeky joke at the clique of half-baked revolutionaries in Labour leader Jeremy Corbyn’s camp. But Mrs. May doesn’t “do” jokes. If she wins the sweeping Conservative victory she seeks, Britons will have given their mandate to an unabashed interventionist, passionately convinced of “the good that government can do” and the duty of the state to mend society’s ills, curb capitalism’s excesses and stand as a bulwark against the unsettling forces of globalization.

Welcome back—just possibly—to the pre-Thatcher Britain I grew up in, the land that coined the word “Butskellism.” A conflation of the surnames of the Tory Party’s Rab Butler and Labour leader Hugh Gaitskell, Butskellism was shorthand

for a left-leaning, corporatist postwar mind-set in both main parties. Fear of change—and, in the Tory case, fear of an increasingly welfare-dependent electorate—kept much of the economy unprofitably in state hands for fear of committing the crime of “selling off the family silver,” and the whole country in thrall to overmighty trade unions.

It trapped politicians into generally fruitless efforts to banish stagflation by controlling prices and wages, and to ward off economic decline with “industrial strategies” that mainly amounted to subsidizing flagging industries. These were decades sacrificed to a bungling corporatism, culminating in the late 1970s in near-bankruptcy. They should have taught us that the most untrustworthy of all political phenomena is “a safe pair of hands.”

Margaret Thatcher took risks; calculated risks, for the most part. Like the Greek goddess Pallas Athene, she took care to pick battles she could win, but she was no less a radical for that because at its core hers was a gamble that the British could be persuaded that the key to national recovery was to reward individual ef-

fort, encourage ambition and open up the marketplace to competition.

Mrs. May’s ambition to make Britain “a country that works for everyone” and promote social mobility isn’t that far off from Mrs. Thatcher’s pitch. Yet she has overtly positioned herself in the opposite ideological corner. For her, “markets are broken”

### The Tory Party leader thinks government is the solution, not the problem.

and need “strong” government action to tackle “burning injustices” that blight the life chances of the children of poor families, to transform the prospects of the “just-about-managing” income bracket and at the top, to rein in corporate excess.

Some of her ideas, such as her flirtation with workers on company boards and the economically illiterate proposal to cap domestic energy bills, echo the socialist agenda of Ed Milliband, loser of the 2015 election, and put her well to the left of former Labour Prime Minister Tony Blair.

But is she really a left-wing statist in Tory twinsets? Or is she a conservative with a small “c,” who, like Prince Tancredi in Lampedusa’s novel “The Leopard,” believes that “for things to remain as they are, everything must change?” She argues forcefully that uneasiness about globalization, rising hostility to the mantras of liberal capitalism and resentment of widening income disparities among those “left behind” have reached such a pitch that the state must act as a protective counterpoint, intervening to right the social and economic balance in the name of what she repeatedly refers to as “the common good.” Then again, in terms of what it implies for expanding the role of the state, is this a distinction without a difference?

Mrs. May has a disconcerting propensity to micromanage every decision. The unintended consequence is that the big ideas in her speeches get stuck in the works long enough to be watered down. Consider the ill-conceived scheme to put workers on company boards, quietly replaced by proposed worker and consumer “advisory panels,” and the unpleasantly xenophobic idea, now dropped, that companies could be named-and-

shamed into hiring British workers by forcing them to list their foreign employees. The government’s green paper on corporate reform reads more like an effort to bolster public trust in business than a declaration of war on private enterprise. Her vaunted “proper industrial strategy,” rather than laying out a grand interventionist framework, has dwindled into a rather incoherent laundry list of small-scale interventions.

For this relief, much thanks—as also for Mrs. May’s Brexit-driven pledge to make Britain “the strongest global advocate for free markets.” Her recent proposal to endow government with French-style powers to block foreign takeovers is likely to be checkmated by Britain’s pressing need to demonstrate that it is more than ever a country open to foreign investors. Her actions to date have been much more cautious than her speeches. With luck, Mrs. May will turn out to be interventionist by instinct, but liberal by default. But that “safe pair of hands” will need watching like a hawk.

*Ms. Righter is an associate editor of the Times of London.*

## We'll Always Have Paris, Unless the Senate Has Its Say

By Rupert Darwall

**E**xpect some clarity soon on America’s future participation in the Paris Agreement on climate. Several cabinet members, including Secretary of State Rex Tillerson and Defense Secretary Jim Mattis, want to stay in, but at a recent rally in Pennsylvania, President Trump called Paris a one-sided deal that would shrink the economy by \$2.5 trillion over 10 years.

According to reports last week, Mr. Trump is leaning toward withdrawal, but aides warn that he could

face trouble in U.S. courts if he fails to uphold the Obama administration’s commitments under Paris. But there is a third approach—submitting the agreement to the Senate for ratification.

Some advocates of staying in argue that America’s moral and political commitment under the agreement is not legally binding because the accord doesn’t have an enforcement mechanism. But neither the North Atlantic Treaty nor the 1992 U.N. Framework Convention on Climate Change has an enforcement provision, and both were submitted to the

Senate. Neither of them have a compliance mechanism either—unlike the Paris Agreement, which provides for one in Article 15.

But does an international agreement have legal force at all if the Senate hasn’t ratified it? That’s unclear. During Senate Foreign Relations Committee hearings on the 1992 U.N. climate convention, the administration of George H.W. Bush pledged to submit future climate protocols to the Senate. Senior Senate Republicans might now wish Paris would go away, but letting it stand without Senate consent would create a standard that would have permitted “accepting”—the word President Obama used for joining the Paris Agreement—the U.N. climate convention and the 1997 Kyoto Protocol without Senate consent. A senatorial prerogative written into the Constitution would be lost.

And an administration that has al-

ready had three executive orders blocked by the courts should assume it will face litigation over any loosening of emissions regulations. Will judges view Paris as legally binding?

### Is the climate accord binding even without Congress’s approval? Why risk finding out?

No one disputes that under some circumstances, the president can bind the U.S. by a unilateral executive agreement. The conundrum is determining at the outset whether the Paris Agreement falls into that category. Sending it to the Senate would provide an answer; not doing so cannot guarantee that it is not binding.

In *U.S. v. Belmont* (1937), the Su-

preme Court ruled that an international compact—in that instance one requiring the federal government to seize assets on behalf of the Soviet Union—is not always a treaty which requires the participation of the Senate.

Ultimately the legal standing of the agreement depends on what the British legal philosopher H.L.A. Hart called “the internal point of view” of those applying and interpreting the law, one that lies outside the law itself.

In deciding what to do about the Paris Agreement, the president faces a more extreme situation than George W. Bush when he repudiated the Kyoto Protocol in 2001. Four years earlier, the Senate had unanimously adopted the Byrd-Hagel resolution effectively vetoing Kyoto. By not allowing the Senate to administer the protocol’s coup de grâce, Mr. Bush brought all the political opprobrium on himself.

In joining the Paris Agreement without Senate consent, Mr. Obama unilaterally nullified precedent and extinguished specific executive-branch pledges. Mr. Trump can restore the constitutional balance and further his own policies by submitting the Paris Agreement to the Senate. Tell senators why it is such a bad deal for the U.S.—and then let the Democratic senators, especially the 10 who are up for re-election next year in states he carried, explain why they support shrinking the economy.

*Mr. Darwall is author of “The Age of Global Warming: A History” (2013).*

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*Larry Arnn, president of Hillsdale College, speaking at the Atlanta National Leadership Seminar, Feb. 15:*

Why would a bunch of 19-year-olds rage and take over college campuses? . . .

The answer is they have been taught to do that in the classrooms where they are taught . . . that their consciousness is shaped by time and circumstance. . . . If what you see

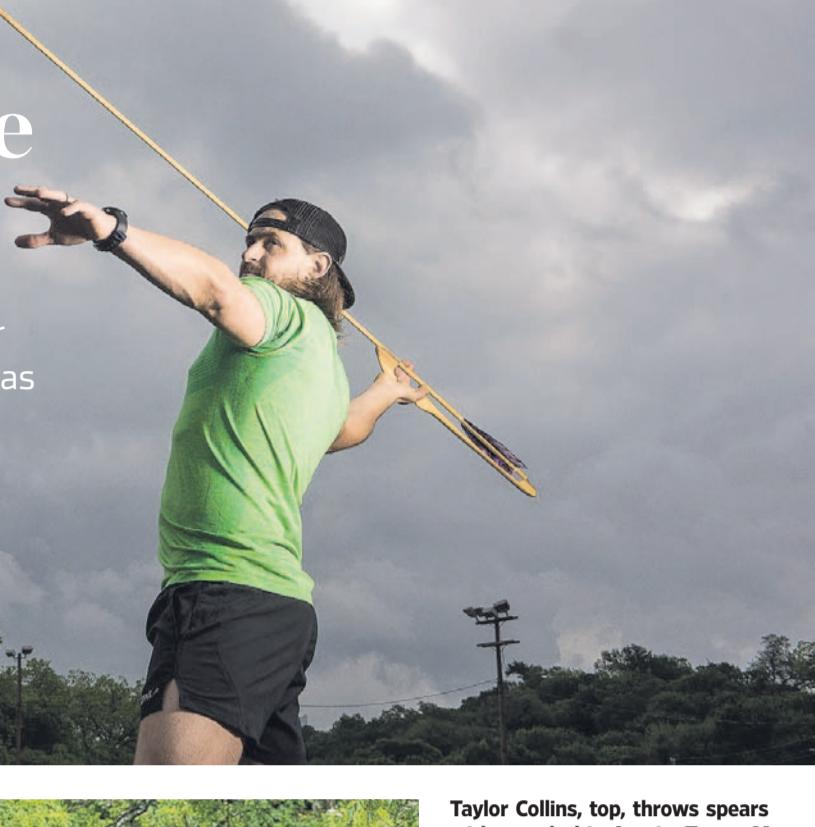
when you see people now is a history of color and race and oppression and suppression and all of that, all of a sudden all humanity is not your brother and sister anymore. Now everybody is in a group. And the group conflict and the arrangement of the group is the key. And the avant-garde in the university—they think that they have understood that the best. And so the university must be remade just to represent the groups.

## LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

# You Can Exercise With a Spear?

A recreational bow hunter uses an atlatl for target practice (on large fruit) in a park in Texas



MATTHEW MAHON FOR THE WALL STREET JOURNAL

**WHEN TAYLOR COLLINS** brings watermelons to the park, they aren't for a picnic.

He uses them for target practice with his atlatl, an ancient spear-throwing device.

"It's the rawest form of hunting tool," says the co-founder and CEO of meat-based superfoods company Epic Provisions. Mr. Collins, 34, is a recreational bow hunter based in Austin, Texas, who only has time for a few hunting trips each year. Two years ago, he was researching historical hunting methods and discovered the atlatl (pronounced at-la-tal).

A version of the atlatl, a hunting tool that predates the bow and arrow, may have first been used around 30,000 years ago in Europe and 11,000 in North America, according to the World Atlatl Organization. The word comes from the Nahuatl languages spoken in Mexico and other parts of Central America.

It lengthens the arm like an extra joint, making it possible to throw a spear farther and with more force than with one's bare hands. It works similarly to a throw stick for dogs playing fetch.



Taylor Collins, top, throws spears with an atlatl in Austin, Texas. Mr. Collins and his wife, Katie Forrest, above, push 6-month-old daughter Scout in a jogging stroller through an Austin park.

backyard. "I have chickens and they love searching for bugs in areas where I throw the atlatl spear, probably because of the churned up soil created when I miss my target," he says. "I have had many close calls. Luckily I haven't hit one yet, but if I did we would be eating chicken for dinner."

### The Workout

"Throwing requires full body engagement," Mr. Collins says. "You need shoulder strength, but you also need your lats to fire and your core must be engaged." Mr. Collins takes two to three steps, pushes off from his back leg as he throws and lands on his front leg as he follows through. "It's easy to throw," he says. "But it's very hard to aim." He throws for an hour with his right, dominant hand, around 50 to 60 throws, but admits some days he spends more time retrieving spears.

To build his throwing strength, he does functional body weight exercises focused on his shoulders, triceps, lats, quads and abdominals. He uses a stretchy TheraBand to perform lat pulldowns, lateral raises and internal and external rotations that target his rotator cuffs. He practices his throwing motion repeatedly.

"Throwing the atlatl has increased my overall athletic ability beyond what I was getting from running or cycling," he says. He often asks friends and colleagues to join him for throwing sessions in the park. "It forms a lasting memory beyond what you'd accomplish at the bar," he says.

Mr. Collins and his wife, Katie Forrest, who also co-founded Epic Provisions, used to run or bike together in the mornings. When the couple had their first child, Scout, in December, they purchased a Peloton spin bike, which streams virtual classes over Wi-Fi. "One of us is on baby duty while the other spins," he says. Mr. Collins likes Peloton's high-intensity interval classes and rides, where a DJ spins music live during the workout.

### The Diet

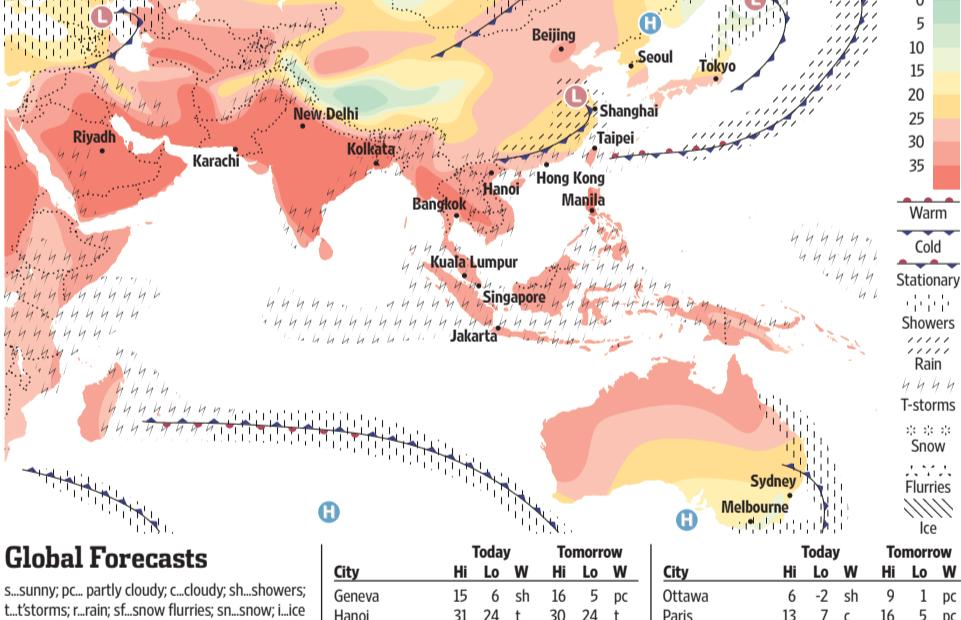
Mr. Collins has tried nearly every diet, including raw food, gluten-free, paleo and the high-fat ketogenic diet. "Testing different diets helped me learn what works for my body," he says. He currently skews toward a paleo diet, though he will eat ancient grains like quinoa. He eats a lot of pasture-raised meat and leafy greens, and puts coconut oil on everything.

Mr. Collins makes cassava flour breakfast tacos stuffed with pasture-raised eggs and sautéed bacon and carrots, and chia seeds. He uses lunch to taste-test new products. Dinner might be spiraled zucchini "spaghetti" with pasture-raised pork sautéed in coconut oil topped with tomato sauce.

### The Gear & Cost

An atlatl starter kit costs about \$100 on Amazon; it comes with three spears. Mr. Collins wears Altra trail sneakers, which retail for \$110. "They look like mall walkers and I feel like an 80-year-old geriatric in them, but the shoe lends itself to a more natural running style." A Peloton bike costs \$2,000, plus a \$39 monthly membership fee.

### Weather



### Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	14	4	pc	13	4	c
Anchorage	12	4	c	12	5	c
Athens	27	16	s	26	16	pc
Atlanta	25	15	s	30	17	pc
Baghdad	37	19	s	38	22	s
Baltimore	16	5	pc	18	6	c
Bangkok	34	26	t	34	26	t
Beijing	32	13	c	31	14	s
Berlin	10	0	sh	9	3	c
Bogota	18	10	r	19	10	r
Boise	21	8	pc	24	9	s
Boston	13	5	c	11	5	pc
Brussels	12	3	pc	13	3	c
Buenos Aires	21	10	r	20	8	pc
Cairo	36	22	s	38	24	s
Calgary	18	6	s	18	4	pc
Caracas	31	26	pc	31	27	pc
Charlotte	23	11	s	26	14	pc
Chicago	14	5	s	14	5	sh
Dallas	29	19	s	29	20	pc
Denver	23	9	pc	18	7	t
Detroit	14	2	s	15	5	pc
Dubai	40	30	pc	39	29	pc
Dublin	12	6	s	12	3	pc
Edinburgh	13	3	c	16	5	pc
Frankfurt	15	5	sh	13	3	c

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



HMM... | By Kevin Christian & Andrea Carla Michaels

Across			
1 Insurance company employee	29 Easter event	51 Big Bend National Park setting	
9 Desert of southern California	30 Participates in the decision-making process	52 California's Santa ___ winds	
15 Spot for sandcastle builders	31 Boxing's "Greatest"	53 Place to wipe your feet	
16 Old kingdom of Spain	32 Beer ingredient	54 Flying start?	
17 Clobbered	33 Like some vaccines	55 Conundrum	
18 College-area local	34 Hamlet's "To be or not to be" address	56 Choir member's need	
19 Three, on a sundial	35 Like some vaccines	57 Funny Wright	
20 "How stupid of me!"	36 Hamlet's "To be or not to be" address	58 Get used to gradually	
21 Played pitifully	37 Won, for one	59 Real-life model for Citizen Kane	
22 Tree with toothed leaves	38 On, for one	60 Ivy anchors	
23 "The Sun Also Rises" writer	39 Sgt. for example	61 Fire remnant	
24 Bell-shaped flower	40 Remote power, often	62 Justice Dept. agency	
25 Japanese cartoon genre	41 Power, often	63 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	
26 Partner's share, at times	42 Tree with toothed leaves	64 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	
27 Model Campbell	43 Played pitifully	65 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	
28 Greek street food	44 Figurative dish for the shamed	66 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	
29 Gold, in Granada	45 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
30 Teeth holder	46 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
31 Vice president before Ford	47 Microbe		
32 Unveiling exclamation	48 Figurative dish for the shamed		
33 Foe	49 Bring together		
34 "Kill Bill" star Thurman	50 Title character of Tyler Perry films		
35 Former Iranian ruler	51 Fundamental principle		
36 Bell-shaped flower	52 "I ___ Proud" ("The Mikado" song)		
37 Japanese cartoon genre	53 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
38 Paving chunk	54 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
39 Robustly healthy	55 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
40 Honorees of a day in May	56 Device used to zap commercials		
41 Wriggle like a rattle	57 CBS exec		
42 Concrete component	58 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.		
43 Org. involved with massive cleanups	59 Eight-time NBA All-Star ___ Ming		
44 Burrowing rodent	60 Factor of every prime		
45 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	61 Mel who played for the Giants for over 20 years		
46 Between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.	62 Bout enders, briefly		

### Previous Puzzle's Solution

CUP	S	ARUSH	MOPS
ORAL	LORN	ANAT	
MARY	WILSON	NAPA	
INA	IKEA	GUISES	
NIBBLES	EPEASES	GULL	
SMEAR	ORLON	SEN	
IRA	GESE	BETWEENUS	
RESCINDS	VANE	ASTONE	
QUASAR	GAOL	CRESTED	
WRIT	ILLBUYTHAT	AGRA	
REEL	EPEE DUES	FAULT EASE	

The contest answer is PRIVATE. The central answer BETWEEN US is a clue to look for letters appearing between U and S in the grid, either Across or Down. The seven such letters in top-to-bottom order spell the contest answer.

In-depth analysis from expert journalists



Key gauges, trends, and data points

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, May 8, 2017 | B1

Yen vs. Dollar 112.6760 ▲ 0.19% Hang Seng 24476.35 ▼ 0.84% Gold 1224.80 ▼ 0.14% WTI crude 46.22 ▲ 1.54% 10-Year JGB yield 0.020% 10-Year Treasury yield 2.352%

## Buffett Plans for Lower Tax Rate



Berkshire chief Warren Buffett

By NICOLE FRIEDMAN  
AND ERIK HOLM

OMAHA, Neb.—**Berkshire Hathaway** Inc. is already examining ways to benefit from the lower corporate tax rate proposed by President Donald Trump, Chairman Warren Buffett said at the company's annual meeting Saturday.

The company had a "slight preference" for taking a tax loss on some of its investments in the first quarter, Mr. Buffett said, because it expects that such a loss would be less valuable to Berkshire in the future if taxes are lower. Berkshire

said Friday that its first-quarter net earnings fell 27%, hurt by weaker investment gains.

The Trump administration unveiled a plan last month to lower taxes on all businesses to 15%. Most of Berkshire's revenue comes from the U.S., so it would expect a large benefit from lower taxes.

Some of those benefits would be passed along to the company's customers, especially in its heavily regulated utility businesses and in the more-competitive industries in which it operates, Mr. Buffett said. But shareholders would benefit too, especially due to

lower taxes on Berkshire's investment gains.

Mr. Buffett, a longtime Democrat, supported Democratic candidate Hillary Clinton in the presidential campaign. But he has said Berkshire's long-term performance won't depend on who is president.

Mr. Buffett and Berkshire's vice chairman, Charles Munger, answered questions from shareholders, analysts and journalists for hours on Saturday in Omaha. Tens of thousands of Berkshire fans traveled from around the world to hear Messrs. Buffett

and Munger speak and to shop at Berkshire businesses, including See's Candies, Fruit of the Loom and Dairy Queen.

The enthusiastic crowd, many of whom stood outside for hours to get prime seats inside the arena, responded to Messrs. Buffett and Munger's familiar stories and jokes with laughter and applause.

The two men touched on everything from the effect of accounting policies on Berkshire's balance sheet to their regret at not investing in Amazon.com Inc. or Alphabet Inc.'s Google.

Please see PLANS page B2

## Chinese Secure Record Takeover

China Inc. reached a milestone in global acquisitions as shareholders of Swiss agro-giant Syngenta AG approved a \$43 billion takeover by China National Chemical Corp., sealing the country's biggest foreign deal to date.

By Brian Spegele  
in Beijing and Kane Wu  
in Hong Kong

The hard work may just be beginning, however, as China National Chemical, known as ChemChina, faces challenges ranging from financing the deal to fusing the acquired business into its own operations.

"Life begins after closing," said Grace Fan-Delatour, a partner at law firm K&L Gates LLP, who advises state-owned Chinese companies on outbound investment and how to avoid the pitfalls that often bedevil big takeovers.

Executives at state-owned ChemChina will have to manage a balancing act as they expand Syngenta's seed and pesticide businesses in China's fragmented and inefficient agriculture sector while ensuring stability at the Swiss company's operations in the U.S. and around the world.

ChemChina also must attract new equity investment to help cover Syngenta's hefty price tag amid concerns over its debt levels.

And more upheaval may be on the way: China's government is contemplating a merger of ChemChina with state-owned conglomerate Sinochem Group, according to two people familiar with the situation.

Both companies, which previously denied reports of a planned tie-up, didn't respond to requests for comment Friday. China's state-owned Assets Supervision and Administration Commission, which is in charge of state-run companies, also didn't respond to inquiries.

In a joint statement, ChemChina and Syngenta on Friday said 80.7% of the Swiss company's shares were tendered for the deal, based on a preliminary count, well above the 67% minimum needed for approval. The companies said the first settlement payment is scheduled for May 18, when ChemChina would take control.

Syngenta closed at 459.2 Swiss francs (\$465) a share Thursday, about 20% above the price before the deal was announced in February 2016. ChemChina will also pay a

Please see CHINA page B2



Paprika plants at a Monsanto vegetable-seed division's facility in the Netherlands. The company is investing in gene editing to modify seeds and improve crops.

## Next Phase of Crop Technology: Editing Genes

Monsanto and other companies are turning to new gene-editing tools such as Crispr

By JACOB BUNGE

Monsanto Co. is opening its next chapter in genetic technology—and may face tougher competition.

The St. Louis company is investing in gene editing in an effort to keep an edge over rival suppliers of high-tech crop seeds. Monsanto has signed a string of licensing deals to add new gene-editing capabilities

to its established methods of genetically modifying seeds, or creating GMOs.

Dr. Robert Fraley, Monsanto's chief technology officer, said gene editing could help corn plants thrive in dry conditions, or produce tastier bell peppers. "It's a breakthrough technology," he said. "It's going to create just a wave of innovation."

But startups and established competitors like DuPont Co. and Dow Chemical Co. are also working on gene-edited plants, which can advance through regulatory reviews faster than seeds developed with earlier biotechnology techniques.

Gene editing is different from the genetic modifications that Monsanto and other companies pioneered in the 1980s.

Gene editing allows scientists to make changes to a plant's already-existing DNA with the same precision that word-processing programs can edit text, scientists say. In the crop-seed business, genetic modification up to this point mainly has involved inserting new genes from bacteria or another plant. That difference can mean a shorter review by U.S. regulatory agencies for gene-edited crops.

The earlier technology is what created Monsanto's "Roundup Ready" seeds—modi-

fied to resist herbicides—and turned the company over the past 20 years into the world's largest seller of crop seeds. That GMO seed business last year spurred a \$57 billion takeover offer from German chemical conglomerate Bayer AG, which the companies aim to close by the end of 2017.

But seed giants and Farm Belt upstarts view gene editing as the new front in genetic technology, potentially offering a cheaper and easier method of tweaking plants' DNA.

Emerging technologies such as Crispr-Cas9 and Exzact allow scientists to change a plant's performance without

inserting genes from other species or bacteria. Gene editing can also help researchers insert new genes more precisely into plants' DNA, hastening the development of biotech plants that can produce their own bug-killing proteins.

Over the past year, Monsanto has licensed two different Crispr versions, Crispr-Cas and Crispr-Cpf1, as well as the Exzact technology and another gene-editing platform developed by TargetGene Biotechnologies Ltd. The company has recruited medical and pharmaceutical researchers to explore the technologies' potential to

Please see CROPS page B2

KEYWORDS | By Christopher Mims

## How Driverless Cars Could Wipe Out Uber

If Uber Technologies Inc. ever collapses, historians may trace its undoing not to its troubles with labor relations, intellectual property, regulatory conflicts or sexual-harassment allegations, but to technological disruption.

This would be the same technological disruption the company itself pledged to use to upend the auto industry and the \$2 trillion a year tied to it.

Less than a year ago, Uber Chief Executive Travis Kalanick described self-driving cars as an "existential" threat to his company, saying that his team must get the technology to market before competitors do, or at least at around the same time. Self-driving vehicles

would ultimately be much cheaper to operate than ones requiring human drivers—robots work tirelessly and don't demand raises. The first companies to roll out fleets of automated taxis could quickly drive their human-powered competition into oblivion.

Uber's philosophy, both internally and in its pitch to consumers, is that it's a hassle to own a car. The irony is, for the pay-by-the-ride future of transportation to be realized, someone has to own a lot of cars. Chances are, it won't be Uber.

When Mr. Kalanick declared the make-or-break importance of self-driving technology, the company had just acquired the startup Otto, which made Uber a contender in a space dominated by others. Less than a year

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## China Tycoons Take to Skies, Seeking Deals

By TREFOR MOSS

SHANGHAI—Chinese tycoons once bought private jets to flaunt their wealth. Now they have something else in mind: flying farther and faster in pursuit of international deals.

Mainland Chinese buyers spent \$12.75 billion on 255 private airplanes over the past five years, according to Global Jet Capital, which finances private jet purchases, roughly four times the total of the previous five years. U.S. companies Gulfstream Aerospace Co. and Boeing Business Jets were among the prime beneficiaries.

The surge came despite President Xi Jinping's clampdown on corruption and extravagance that began in 2013. While that campaign continues, it has been tempered by the government's push for Chinese companies to expand overseas, leading to last year's record \$226 billion in foreign acquisitions, according to Dealogic.

These austere-but-ambitious dictates transformed the private jet from a plaything for

China's super-rich into a corporate utility, according to manufacturers and brokers who tailor jets for China's elite.

"There's a realization now that this isn't a luxury leisure tool, like a yacht—it's a transportation tool," said Jenny Lau, president of Sino Jet, a Hong Kong-based oper-

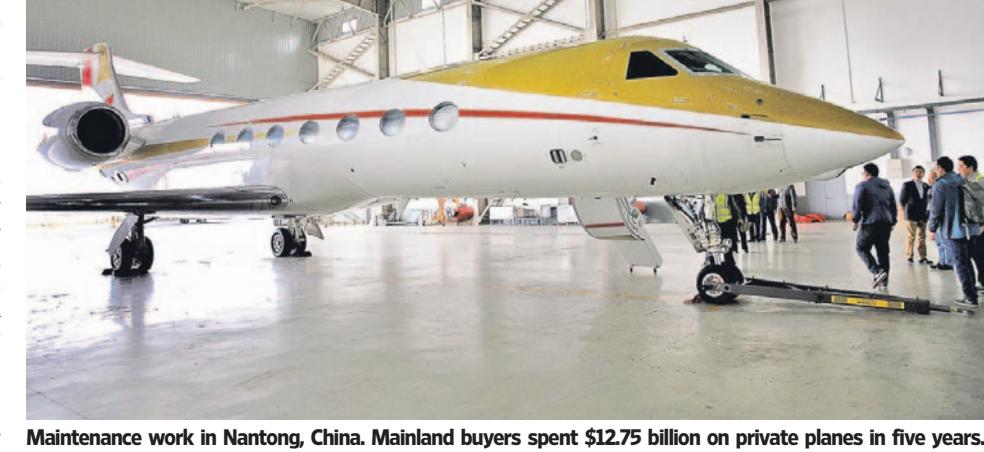
ator and broker.

Tellingly, half the jets purchased in China in 2016 were secondhand, said Jeffrey Lowe, managing director of jet broker Asian Sky Group—a shift from past years when most Chinese buyers who could afford jets were too image-conscious to think of buying a used one.

"They weren't comfortable buying someone else's airplane," Mr. Lowe said. "Now it's all about getting good value."

Greater China's fleet of 477, as counted by Asian Sky Group, remains modest relative to the U.S., which has

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Maintenance work in Nantong, China. Mainland buyers spent \$12.75 billion on private planes in five years.

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Syngenta has faced exchange rate and deflationary challenges.

## CHINA

Continued from the prior page  
special dividend of five Swiss francs a share before the deal's closing.

With the deal, China has shown it remains willing to spend top dollar for prized overseas assets despite worries about capital outflows—a concern that is tamping down Chinese global deal making in general.

The Syngenta transaction also portends a profound shift in the agriculture sector globally, with China set to play a greater role in the food supply chain of U.S. and other countries as it scoops up technologies for its own farms. It also comes against the backdrop of broad industry consolidation, which has triggered objections from farmers over less choice and potentially higher costs.

At its heart, however, the deal will help China modernize antiquated farming techniques that have made it increasingly reliant on imports to feed its population of 1.4 billion. Giving farmers access to more-advanced foreign technology—including genetically modified seeds developed by Syngenta and its competitors—fits into efforts to industrialize farming

in China.

With few exceptions, genetically modified seeds aren't allowed in China. Industry observers say the Syngenta deal will likely work to change that.

For Ren Jianxin, ChemChina's chairman and founder, the acquisition solidifies his place as one of China's top deal makers.

However, ChemChina's latest acquisition will bring its own challenges. Syngenta's net profit has fallen more than 25% over the past two years. The company has struggled with poor weather, exchange-rate volatility and deflationary forces that weakened crop prices—and reduced demand.

While Mr. Ren has earned a reputation as an aggressive mergers-and-acquisitions tactician, he is seen as less adept at staging corporate turnarounds. Success with Syngenta may depend in part on choosing the right ChemChina managers to lead the integration, industry analysts said.

The Swiss company, for its part, has suggested ChemChina will take a hands-off approach to its operations, and has played up the long-term financial stability the takeover promises.

—Brian Blackstone in Zurich and Vibhuti Agarwal in New Delhi contributed to this article.

\$15 billion to help Kraft Heinz buy Unilever. Each company owns about a quarter of Kraft Heinz. But Berkshire's participation was contingent on the deal being a friendly offer, Mr. Buffett said.

Mr. Buffett defended 3G for another year as he faced questions about how its penchant for cutting costs and laying off employees aligns with Berkshire's values. Mr. Buffett said 3G makes necessary cuts for its businesses.

Concerning Wells Fargo & Co.'s 2016 sales-tactic scandal, Mr. Buffett blamed former

## CROPS

Continued from the prior page  
tweak the genes of corn, soybeans, cotton and vegetables in ways that will make farmers more profitable.

"We don't think there's a silver bullet in this," said Hugh Grant, Monsanto's chief executive. "We've tried to play across the emerging front of these technologies."

Dr. Fraley said that in a decade the most advanced seeds could boast a dozen added genes alongside various genomic edits to resist disease, drought, bugs and weed-killing chemicals.

Monsanto's seeds won't be alone in the new bioengineered marketplace.

Bayer has set up its own joint venture centered on Crispr gene editing and plans to evaluate its potential to develop new crops. DuPont, Mon-

soanto's biggest rival in the U.S. seed business, has forged its own licenses for gene-editing technologies and plans to sell within four years a gene-edited variety of waxy corn, used to

thicken food products and make adhesives. Dow, which is pursuing a merger with DuPont, joined with California-based Sangamo BioSciences to develop Exzact, a separate

gene-editing technology.

Smaller firms pursuing the technology include Calyxt Inc., based in Minnesota, which is developing a strain of wheat that has been gene-edited to reduce gluten content, and a soybean that produces healthier vegetable oil. San Diego-based Cibus has developed a variety of canola resistant to certain herbicides.

Gene-edited crops can face looser regulation in the U.S. than crops that have been souped up with outside DNA.

Winning world-wide regulatory approval for traditional biotech crops can take 13 years and cost \$136 million, according to a 2011 study by research firm Phillips McDougall Ltd.

That opens the field to a wider range of competitors, said James Radtke, head of product development for Cibus. "As long as that continues, a company that's got a smaller budget can actually be a player," he said.

During the Asian Business Aviation Conference and Exhibition in Shanghai this April, manufacturers, financiers and jet operators were among those welcoming what they said was Beijing's growing acceptance of business jets as a normal feature of China's new, outward-looking corporate scene.

Several made reference to Premier Li Keqiang's pledge to promote general aviation and build scores of new airports in his main annual policy statement in March, and Shanghai Airport Authority President Jing Yiming used the expo to announce that his city would soon build China's first airport dedicated to business jets.

Such developments will propel Chinese orders to 90 medium to large-size private jets a year for the next decade, according to Global Jet Capital.

The emergence of financing and leasing models will also help, said David Henderson,

the company's managing director for Asia sales.

Chinese companies can now lease a \$60 million jet for \$600,000 a year, after they pay a deposit of \$12 million to \$18 million, Mr. Henderson said.

Jet brokers say recent buyers include many from China's booming tech sector, but they declined to give names, saying customers prefer not to draw attention to what some consider an extravagant purchase.

But sales these days focus more on the aircraft's suitability for long-range business than on luxurious interiors, said Jason Liao, chief executive of China Business Aviation Group in Beijing, which brokers and operates private jets.

The ability to fly nonstop from China to the U.S., and to carry the large entourages that are a feature of Chinese business delegations, are key selling points, he and others said.

When the chairman of one listed Chinese company started planning a 2016 global tour aimed at taking his firm into the big leagues, Mr. Liao said he helped him buy and customize a Boeing Business Jet, an adapted version of a 737 airliner that typically sells for around \$80 million.

Mr. Liao said the client, whom he declined to name, used the plane to seal a number of deals in the U.S., Europe and Russia.

## BUSINESS & FINANCE

# Profits Jump, Spending Lags

Earnings at U.S. firms rose 13.9% in first quarter, aided by an energy sector rebound

BY THOMAS GRYTA AND THEO FRANCIS

The largest U.S. companies are posting their strongest quarterly profits in five years, as firms reap the benefits of years of belt-tightening and finally see a pickup in demand.

Part of that improvement has come from keeping a lid on spending for new plants and equipment—and there is little sign that is changing.

Profits at S&P 500 companies jumped an estimated 13.9% in the first quarter from a year earlier, growing nearly twice as fast as revenue on a per-share basis. The gains stretched across industries, from Wall Street banks to Silicon Valley web giants, and were helped by a rebound in the battered energy sector. The picture was a marked improvement from a year ago, when profits fell 5%, and was the best percentage gain since the third quarter of 2011.

While the latest government data show the labor market is healthy and the U.S. economy continues to slowly expand, CEOs of the biggest companies aren't yet opening their wallets wide on capital investment.

"We continue to focus on driving savings where possible, taking a zero-based approach to capex and capital spending," James Saccaro, chief financial officer of medical products firm Baxter International Inc., recently told investors. Zero-based budgeting means starting a spending plan from scratch each period, justifying every dollar rather than adjusting the amount spent previously.

Years of slow economic growth have trained companies to be lean, something that amplifies earnings when the top line finally does pick up. Heavy-

excluding the energy sector, which surged after more than a year of punishment from low crude-oil prices, S&P 500 quarterly earnings rose 10% in the first quarter from a year ago, when earnings were up 0.4% on the same basis, according to Thomson Reuters. Revenue climbed 5.3% from a year earlier.

The calculation excludes write-downs, restructurings and other items considered unusual. It is based on actual



Caterpillar reported its first quarterly sales increase since 2015, with revenue rising about 4%.

equipment maker Caterpillar Inc. reported its first quarterly sales increase since 2015, with revenue rising about 4%, and doubled its profit, excluding restructuring costs.

Improvements in the quarter were led by financial, technology and basic-materials companies. The best sector was energy, where profits were up 647% from the year-ago period, while revenue leapt 31%.

Profit gains were more muted for industrials, utilities and consumer staples. Many food and household-products makers, including Colgate-Palmolive Co. and PepsiCo Inc., reported weak starts to the year.

Excluding the energy sector, which surged after more than a year of punishment from low crude-oil prices, S&P 500 quarterly earnings rose 10% in the first quarter from a year ago, when earnings were up 0.4% on the same basis, according to Thomson Reuters. Revenue climbed 5.3% from a year earlier.

There was one notable exception to the profit and sales gains: the U.S. telecom industry. Thomson Reuters estimates the group's revenue dropped 4.7%, while earnings fell 4.5%.

results from two-thirds of the S&P 500 and analyst expectations for the rest.

Data on capital expenditures suggest companies remain cautious.

An analysis of results from 215 companies in the S&P 500 shows that spending on things such as equipment and buildings rose roughly 1.5% in the first three months of the year, according to S&P Global Market Intelligence.

Half of the sectors measured showed a decrease in capital spending in the quarter from a year earlier.

Exxon Mobil Corp.'s first-quarter profit doubled but the company said its capital expenditures dropped 19% to \$4.2 billion as it "remained disciplined in its investment."

At Union Pacific Corp., finance chief Robert Knight highlighted that the railroad has cut annualized capital spending by \$1.2 billion to \$3.1 billion in the past couple of years.

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The biggest telecom providers, Verizon Communications Inc. and AT&T Inc., cut prices and rolled out unlimited data plans in the quarter to combat customer defections to smaller rivals.

Some companies see more value in returning cash to shareholders than reinvesting it in their business. Semiconductor company Skyworks Solutions Inc. spent \$55 million on capital expenditures in the quarter, while paying dividends of \$52 million and repurchasing \$95 million in shares.

FlowServe Corp., a maker of pumps and valves, is planning to pay out \$100 million in dividends in 2017 in addition to capital expenditures of \$90 million.

U.S. Secretary of Commerce Wilbur Ross recently said the initial reading of first-quarter gross domestic product—growth of just 0.7%—included increased business investment mostly from mining exploration shafts and oil wells. He made the case for the Trump administration's business policies to help boost growth.

Sacks of tomato seeds at Monsanto's vegetable seeds division. The firm one day aims to create advanced seeds to resist disease.

Continued from the prior page  
tweak the genes of corn, soybeans, cotton and vegetables in ways that will make farmers more profitable.

"We don't think there's a silver bullet in this," said Hugh Grant, Monsanto's chief executive. "We've tried to play across the emerging front of these technologies."

Dr. Fraley said that in a decade the most advanced seeds could boast a dozen added genes alongside various genomic edits to resist disease, drought, bugs and weed-killing chemicals.

Monsanto's seeds won't be alone in the new bioengineered marketplace.

Bayer has set up its own joint venture centered on Crispr gene editing and plans to evaluate its potential to develop new crops. DuPont, Mon-

santo's biggest rival in the U.S. seed business, has forged its own licenses for gene-editing technologies and plans to sell within four years a gene-edited variety of waxy corn, used to

thicken food products and make adhesives. Dow, which is pursuing a merger with DuPont, joined with California-based Sangamo BioSciences to develop Exzact, a separate

gene-editing technology.

Smaller firms pursuing the technology include Calyxt Inc., based in Minnesota, which is developing a strain of wheat that has been gene-edited to reduce gluten content, and a soybean that produces healthier vegetable oil. San Diego-based Cibus has developed a variety of canola resistant to certain herbicides.

Gene-edited crops can face looser regulation in the U.S. than crops that have been souped up with outside DNA.

Winning world-wide regulatory approval for traditional biotech crops can take 13 years and cost \$136 million, according to a 2011 study by research firm Phillips McDougall Ltd.

That opens the field to a wider range of competitors, said James Radtke, head of product development for Cibus. "As long as that continues, a company that's got a smaller budget can actually be a player," he said.

During the Asian Business Aviation Conference and Exhibition in Shanghai this April, manufacturers, financiers and jet operators were among those welcoming what they said was Beijing's growing acceptance of business jets as a normal feature of China's new, outward-looking corporate scene.

Several made reference to Premier Li Keqiang's pledge to promote general aviation and build scores of new airports in his main annual policy statement in March, and Shanghai Airport Authority President Jing Yiming used the expo to announce that his city would soon build China's first airport dedicated to business jets.

## TECHNOLOGY

WSJ.com/Tech

# Uber's 'Greyball' Draws U.S. Scrutiny

BY DEL QUENTIN WILBER AND GREG BENSINGER

Federal prosecutors in the U.S. have begun a criminal investigation into **Uber Technologies Inc.**'s use of software that tricked local regulators who were trying to identify drivers in sting operations, according to a person familiar with the investigation.

Through a program called "Greyball," Uber was able to hide its drivers by showing government officials dummy versions of its app with fake cars trawling the streets. Uber has said it used the technology to evade government officials seeking to identify and block the service's drivers in cities where the company challenged local taxi laws.

The company said in March it would stop the practice of targeting government officials following media reports and a New York Times story that exposed the practice.

The investigation, described as in its early stages, is focused on how Uber used the software, according to the person with knowledge of the matter. A federal grand jury recently sent Uber a subpoena requesting records related to the software, this person said.

A Justice Department spokesman and an Uber spokesman declined to comment. Outside attorneys for Uber didn't respond to requests for comment.

Reuters earlier reported Uber was the subject of a criminal probe.

Uber began Greyball years ago to prevent people from using its app, including law-enforcement sting operations and competitors attempting to disrupt the company's system, according to a person familiar with Greyball.

Besides showing fake versions of the app, Uber employed various methods to identify its adversaries, such as using its mapping technology to create virtual fences around government offices and looking for government-issued credit cards, this person said.

**The U.S. probe is just the latest in a mounting pile of setbacks for Uber.**

The San Francisco company has said it specifically aimed the technology at violators of its terms of service, the legal agreement required to begin using the app. The company said it used the technology for other purposes, including to test new features, issue marketing promotions, prevent fraud and protect drivers from physical harm.

Officials in Portland, Ore., recently issued a report about the use of Greyball and noted the U.S. Attorney of the Northern District of California was conducting a federal probe of Uber. The company used Greyball in Portland in late 2014 to early 2015, when local laws prevented it from operating there, to ensure drivers couldn't be identified and penalized.

The Philadelphia Parking Authority, which oversees the taxi and ride-hailing industries there, was also contacted by the Justice Department regarding Uber, according to an agency spokesman.

The federal probe is just the latest in a mounting pile of setbacks for Uber. The company, valued by investors at \$68 billion, is investigating claims of sexism and sexual harassment, as well as harsh workplace conditions under its chief executive, Travis Kalanick. The company has seen several high-level executives leave in recent months, and is being sued by **Alphabet Inc.**, which alleges Uber stole design plans for self-driving-car technology. Uber has said the claims are unfounded and is contesting Alphabet in court.

Amid all of this, Mr. Kalanick has vowed to hire a deputy after the leak online of an embarrassing video showing him berating an Uber driver.

# Firms Seek to Make Quantum Leap

VW, IBM and others try out computing technologies to move businesses forward

BY SARA CASTELLANOS

Quantum mechanics has fascinated, confounded and even alarmed scientists for nearly a century with the notion that particles can exist in two states at once and communicate with each other across vast distances. The underlying science that Albert Einstein famously called "spooky" could soon become one of modern computing's core tenets.

Computers that utilize quantum mechanics are moving beyond pure scientific research and edging toward the commercial sector, with companies such as **Volkswagen AG** beginning to harness their unprecedented power to solve complex problems in nanoseconds.

"This technology is not futuristic," said Martin Hofmann, Volkswagen chief information officer, who oversees information technology for the group's 12 brands including **Audi**, **Porsche** and **Bentley**. "It's a question of years until it's commercialized, and investing right now in the technology is a big competitive advantage."

Companies including **D-Wave Systems Inc.** and **International Business Machines Corp.** have been pioneering quantum computing, and experts say that within five



D-WAVE SYSTEMS/VOLKSWAGEN

**Companies have started to tap into quantum computing, such as this D-Wave 2000Q System.**

years the technology could be powerful enough to solve new classes of problems that are currently beyond the grasp of even supercomputers.

While traditional computers use binary digits, or bits, which can either be 0s or 1s, quantum computers use quantum binary digits, or qubits, which represent and store information in both 0s and 1s simultaneously. This means the computers have the potential to sort through a vast number of possibilities within a fraction of a second to come up with a probable solution.

Volkswagen put that speed to use for a recent traffic-optimization project. Working on

a \$15-million D-Wave quantum computer over the cloud, a team of five in-house data scientists took GPS data from 10,000 taxis in Beijing and simulated specific routes that would allow each car to travel from downtown Beijing to the nearest airport, about 30 kilometers away, in the fastest time possible without creating a traffic jam.

After six months and several attempts, Dr. Hofmann and his team in March came up with an algorithm for the computer that optimized the routes for each taxi within a fraction of a second. A normal computer would have taken about 45 minutes to complete

the same task, he said.

Dr. Hofmann's next project is a navigation-based mobile app for drivers in Barcelona that will harness the power of quantum computing and machine learning, a part of artificial intelligence, to predict traffic jams and immediately send alternate routes. The first iteration is expected to make its debut by year-end, though Dr. Hofmann declined to go into more detail about the project. "If our project succeeds and in six to eight years the technology is where it should be, then traffic jams won't happen anymore," he said.

IBM has also developed a cloud-based quantum comput-

## 3-D Printing Thrives in Europe

BY DANIEL MICHAELS

TURIN, Italy—For **General Electric Co.** and its rivals expanding their manufacturing operations using 3-D printing, Europe is emerging as a dominant source of the latest technologies.

GE is placing **Concept Laser GmbH** of Germany and Sweden's **Arcam AB**, which the U.S. industrial giant bought in November for a combined \$1.5 billion, at the core of a new business unit it is spinning out of GE Aviation. Arcam and Concept already are working closely on printed airplane-engine parts with European aviation-component makers that GE bought over the past decade. GE is investing about \$100 million to expand Concept's headquarters and plans to double its staff of 200 by early next year.

Last month GE said it would open in Munich the first of several marketing centers it plans world-wide dedicated to the new technology, known formally as metal additive manufacturing, in a nod to the Euro-

pean companies' outsize role in the technique's development. The new hands-on demonstration facility, which will have up to 10 operational 3-D printers from the two companies, will be built next to GE's existing research center at a cost of roughly \$10 million.

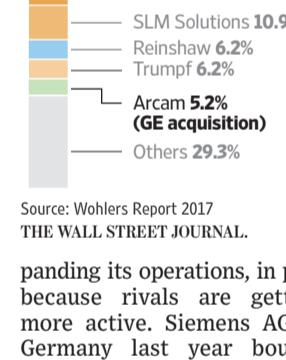
Concept, Arcam and other European companies that GE bought in recent years "bring great technologies that were developed independently here," said Riccardo Procacci, a GE veteran previously with the conglomerate's oil-and-gas division. He is now chief executive of plane-part maker Avio Aero, near Milan, which GE bought in 2013. One of Avio's specialties is 3-D metal printing, thanks to a decade of work with Arcam.

GE is considering European locations for the headquarters of its new GE Additive division, now being created. Executives have said they want to generate \$1 billion in revenue from 3-D printing by 2020, up from \$300 million today.

An early mover into 3-D printing, GE is aggressively ex-

### Adding Strength

Market share of leading 3-D metal printing companies, based on units sold



Source: Wohlers Report 2017  
THE WALL STREET JOURNAL

panding its operations, in part because rivals are getting more active. Siemens AG of Germany last year bought British additive-manufacturer Materials Solutions Ltd. for an undisclosed amount and opened a 3-D printing facility in Sweden. Siemens has focused on parts for gas turbines, an industry in which it competes with GE.

Meanwhile, United Tech-

nologies Corp.'s Pratt & Whitney, which competes with GE in airplane engines, is expanding its use of 3-D printing for making quick prototypes to accelerate engine development.

Siemens and UTC declined to comment for this article.

Siemens, UTC and others "are now taking additive manufacturing much more seriously," said Terry Wohlers, president of Wohlers Associates, a consulting firm focused on additive manufacturing. "But they have some catching up to do" with GE, he said.

With the purchase of Concept and Arcam, GE is now the world's No. 2 producer of metal additive-manufacturing machines, measured by units, with 21.5% market share, according to Wohlers Reports 2017, an annual review. The leader, with 25.9%, is Germany's EOS GmbH, an early developer of the technology.

It was a desire to crack Pratt & Whitney's domination of the turboprop market that helped GE's recent European push coalesce.

## BUSINESS WATCH

NIKE

### Marathon Stunt Fails To Meet Its Goal

Nike Inc.'s attempt to stage the first sub-two-hour marathon fell just short Saturday, a rare marketing miss for the world's largest sportswear maker.

Eluid Kipchoge, the reigning Olympic marathon champion, finished the company-controlled race in two hours, 25 seconds—more than two minutes better than the current world best. Still, his mark likely won't be ratified as a world record, since Nike didn't obey regulations on pacing and hydrating in its race. Two other runners, Lelisa Desisa of Ethiopia and Zersenay Tadesse of Eritrea, fell out of contention early and finished several minutes behind.

Nike invested years of research on the project, dubbed Breaking 2, a multifaceted effort to engineer technically sophisticated footwear and prepare the three elite distance runners to break an iconic time barrier in sports.

Ultimately, the Breaking 2 race amounted to a live-stream program by Nike that was part commercial, part sporting event, and part farce into broadcasting with celebrity commentary.

Nike didn't respond to questions regarding whether it will continue the project.

In the months before the event, Nike said it wouldn't consider it a failure if the runners didn't break two hours. Still, not meeting the ambitious time goal may thwart the company's plans to sell \$250 carbon-plate running shoes—modeled after those worn Saturday by the pros—to the general public.

—Sara Germano

ELLIOTT MANAGEMENT

### Investor Questions Akzo's Strategy

Activist investor **Elliott Management Corp.** accelerated its campaign to push Dutch paint giant **Akzo Nobel NV** to engage in sale talks with U.S. rival **PPG Industries Inc.**, citing research it commissioned that said Akzo's go-it-alone plans would put the company's employees at risk.

Elliott said on Friday that research by chemicals consulting firm ChemQuest showed that a potential tie-up between PPG and Akzo would result in less than a quarter of the layoffs that would be necessitated by Akzo's stand-alone strategy.

PPG last month raised its takeover bid for Akzo to €24.6 million (\$27.1 billion), in its third attempt in a two-month-long, unsolicited courtship.

—Christopher Alessi

## MIMS

Continued from page B1

later, things have changed dramatically. Uber is now embroiled in a court battle with Google-parent **Alphabet Inc.** over the source of Otto's self-driving technology.

Last week, Alphabet subsidiary Waymo presented evidence it says proves Uber's former head of self-driving technology stole the technology from Waymo, where he previously worked.

If Uber loses, its self-driving technology program could be shut down under trade-secret laws.

Uber declined to comment on the suit. Attorneys haven't disputed the allegation that the employee stole files, but they have denied that Uber knew of, possessed or used those files.

As the two spar, Big Auto is dialing up the competition. Last week Cambridge, Mass.-based automotive software company NuTonomy Inc. announced a partnership with Peugeot, while Samsung Electronics Co. got together with Hyundai Motor Co. General Motors Co. is committed to rolling out self-driving vehicles as part of a ride-sharing service, says a company spokesman.

All of this is part of what auto makers and ride-hailing companies anticipate will be a larger transition to "trans-

portation-as-a-service"—potentially the end of widespread vehicle ownership in developed countries.

This disruption hinges on the arrival of dependable autonomous vehicles. And it's not at all clear when they will get here. Tesla's Elon Musk said last week that one of his vehicles will be ready in two

self-driving cars for Uber's network. GM has bet on Lyft Inc., and is building a complement to Uber called Maven Gig that uses human drivers.

But even if Uber can keep up in terms of autonomous-vehicle technology—or find more willing partners in the established auto industry—there is a much larger prob-



Pilot models of Uber self-driving cars in Pittsburgh last year.

years; Uber plans to have its autonomous vehicle available somewhere around 2021.

Uber seems well positioned to take advantage of this disruption. Not only is it working on its own technology, but David Richter, vice president of strategic initiatives at Uber, says that auto makers will benefit from first putting their own self-driving vehicles into service in an existing network—yes, like Uber's.

Daimler AG, maker of Mercedes-Benz, is betting on Uber: It plans to manufacture

lem looming ahead.

The companies that will profit from the transportation-as-a-service revolution will depend on an incredibly costly infrastructure—one that doesn't yet exist. Someone has to buy and maintain all the autonomous vehicles, enough to replace all of the cars driven (and usually owned) by Uber and Lyft drivers.

To date, Uber's model has been built on it not owning vehicles.

Uber does own its prototype self-driving vehicles,

but declined to comment on the extent to which its future would depend on owning vehicles.

Auto manufacturers have a great deal of experience working with the complex web of dealers, financing companies and fleet managers—even car-rental agencies—that could potentially be repurposed to manage millions of self-driving vehicles.

Owing to all these factors, Uber, Lyft and their imitators will eventually cease to exist as stand-alone companies, either going out of business or being acquired by car makers, says Sam Abuelsamid, a senior analyst with Navigant research who specializes in mobility.

A spokesman for Lyft says that it will someday operate its own fleet of self-driving vehicles, but it isn't clear whether it will own them or its auto-maker partners—for example GM—will.

The future of transportation—cheaper, cleaner, less congested—could be great for consumers. It will also open up new sources of revenue for technology companies, the arms dealers of the autonomous-vehicle war. As for Uber, the company faces a difficult choice: Either figure out a way to buy or at least manage an enormous fleet (possibly by going public to foot the bill), or face annihilation by others who will.

## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

# What's My Investing Fee? A Long Quest

Our reporter had a simple question, but the answers were anything but

BY ANDREA FULLER

I THOUGHT MY question was simple: How much was I paying my investment adviser in fees?

After a series of phone calls that elicited the kind of confusion and frustration I have rarely experienced outside of interactions with cable-company customer-service representatives, I think I have an idea. Barely.

Describing the fee disclosures of my adviser as opaque would be generous. The experience left me wondering whether someone even less savvy than me, a Wall Street Journal reporter, would be able to navigate this system, to ferret out the good information from the bad.

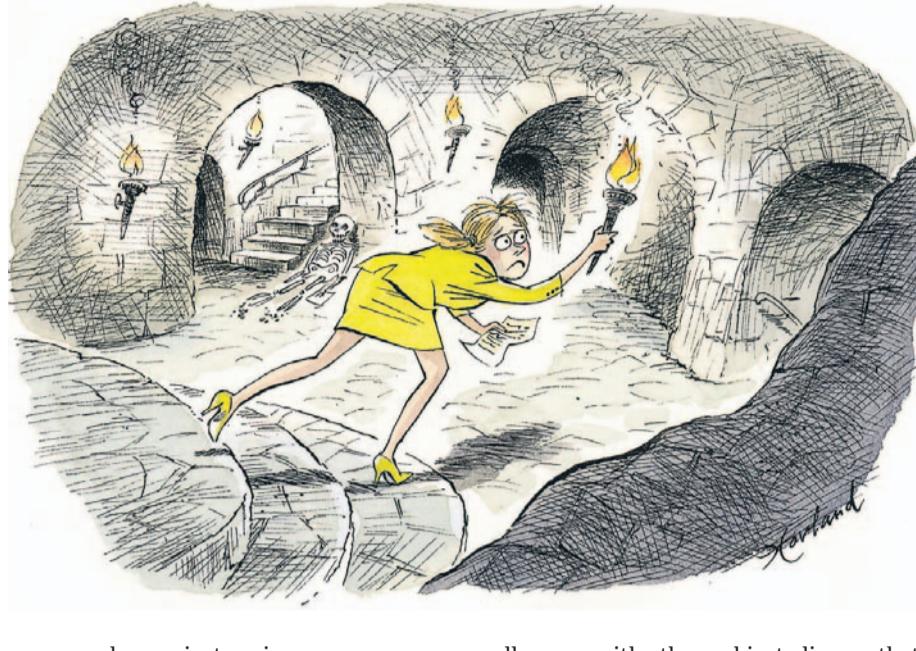
### Getting nowhere

In most offices, I suspect that people try to stay up on sports or television to prime for water-cooler gossip. But at the Journal, I was growing increasingly ashamed of how little I knew about the workings of my own investments. So, I decided to research what fees I paid to invest with my financial-advisory company—one of the largest in the U.S.

All of my investments are in mutual funds or exchange-traded funds. Though I don't have a finance beat—I am an investigative reporter who specializes in data analysis and computer programming—I am still guided by the Journal's conflict-of-interest policy that aims to prevent conflicts between employees' investments and the subjects we may cover. So I don't do any individual stock investing.

I assumed the fee information I was looking for would be readily available in the documents section of the company's website. Wrong. I did see a toll-free number for customer support, so I gave them a ring.

I told the man who answered that I wanted to find out what fees I pay. In retrospect, this was a little like asking your spouse how much divorce lawyers cost. As he began to fret, I assured him that, no, I wasn't



where old IKEA instructions go to die.

He said I could always try looking up individual fees on Morningstar's website.

I thought that this was about as much as I could stomach of the fee-finding quest. I finally had an answer to what fees I paid, even if I remained in the dark about where they were documented. But about that time, I received a response from the adviser who normally schedules my portfolio reviews.

He also cited me the 0.85% number. And he said the internal expense fees were "around 0.5%."

I wrote him back and told him that I had finally spoken with someone who gave me the right answer, and that the number was 0.55%.

He called me, alarmed. It's actually 0.5%, he told me.

Well, the other guy told me 0.55%, I said.

No, he told me, you're in an account with "moderately conservative" risk, and the figure is 0.5%.

The other guy told me I was in the "moderate" account, I said.

Pause. Oh yes, as it turns out, you are in the moderate account, he said.

The 0.55% was correct. My combined fee was 1.4%.

And as for those documents?

"I am trying to find a client approved document that provides you with the internal expenses on the portfolio you are invested in," my adviser wrote.

I am still waiting.

\* \* \*

A spokeswoman for Ms. Fuller's investment-management firm later said she was sorry the reporter had a bad experience. She provided instructions and documents with further information on fees—but no documentation of Ms. Fuller's internal fund fees—and said the firm updated its statements in recent months to more clearly detail fees paid.

**Ms. Fuller** is a reporter for The Wall Street Journal in New York. Email her at [andrea.fuller@wsj.com](mailto:andrea.fuller@wsj.com).



**SPOTLIGHT | ISHARES MSCI FRANCE ETF**

### FRENCH-STOCKS ETF WAS IN THE RIGHT SPOT

Dramatic events in recent weeks have had the world's attention riveted on France, but the performance of BlackRock Inc.'s iShares MSCI France (EWQ) exchange-traded fund rests on a much broader story: the direction of European and global economic growth.

The headlines generated as the French presidential election played out and terrorism flared again in Europe have at times shaken the \$381 million fund, the only U.S.-listed ETF focused on France. Some analysts say it may briefly be buoyed if centrist Emmanuel Macron won on Sunday. But over the longer term, it may draw greater support from the outlook for the European economy and the global markets that many of the fund's holdings operate in.

From the beginning of the European debt crisis at the end of 2009, investors have used the ETF—which along with the iShares MSCI Germany ETF (EWG) represents core exposure to the eurozone—to express their views on the ups and downs of the crisis, says Tushar Yadava, an investment strategist at iShares. Overall, the France fund has been buffeted; its assets have declined more than 40% from their peak of \$649 million in 2008.

As of this time last year, almost all of BlackRock's iShares European ETFs had experienced year-to-date outflows, says Mr. Yadava. But as the eurozone's economy improved toward the end of last year and into this year, investors began dipping their toes back into the European market, he says.

The fund has gained 13.6% this year through April.

—Daisy Maxey

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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### FUNDAMENTALS OF INVESTING

# In Commodity Investing, Currencies Call the Tune

The dollar is an indicator of where commodities prices might be headed—usually the other way

BY SIMON CONSTABLE

INVESTORS WHO want to make money trading commodities would do well to become experts in forecasting currencies.

That's because changes in the value of the U.S. dollar tend to be accompanied by movements in the opposite direction in the prices for most of the materials and foodstuffs traded on global markets. For instance, from September 2012 through February 2016, commodities prices on average halved while the value of the dollar surged.

The dollar's movement isn't a foolproof predictor of the direction of commodities prices, but it's a factor that can't be ignored. For the 10 years through the end of March, the prices of commodities on average show a negative correlation to the dollar's value of more than 0.5, according to an analysis from S&P Dow Jones Indices. In other words, the two move in opposite directions more often than not. (A negative correlation of 1.0 would mean the two always move in opposite directions.)

Some commodities had an even closer relationship to moves in the dollar. Unleaded gasoline, crude oil and heating oil all had negative correlations above 0.8.

Of course, correlation doesn't necessarily mean causation. But in this case, there is an element of causation.

"All commodities are priced in dollars," notes Steve Hanke, professor of applied economics at Johns Hopkins University. "That's why the dollar is so important—if the nominal value of the dollar moves around, then the nominal prices of the commodities have to move around." Other factors can temper or amplify the effect of the dollar's movements, but the dollar will always have some influence on commodities prices.

#### Which way next?

The trick then for investors is to work out which way the dollar is going.

How do you forecast? A standard joke on Wall Street is that some economists can't forecast *past* events with any accuracy. But accuracy, in

terms of the extent of any movements in the dollar, isn't the most important thing in this case. The crucial thing is getting the direction right. If the forecast is for the dollar to weaken, and that forecast proves correct, then investors can have some comfort that the prices of commodities are likely to increase on average.

The easiest way for individual investors to figure out the dollar's direction is to see if their bank publishes exchange-rate forecasts. Such forecasts typically will predict the value of the dollar against currencies including the euro, yen and pound.

#### Dollar/euro test

To keep it simple, investors may want to focus on just one important exchange rate: the dollar versus the euro. "Most of the time if the dollar is strong against the euro it's because the dollar is strong against all currencies," says William Adams, senior international economist at PNC Financial Services in Pittsburgh.

For those who want to supplement a dollar-euro forecast with some of their own research, the key is what happens in the two economies.

"The outlook for economic

growth and inflation is what causes central banks to make the decisions they make, and they fuel a lot of the movements in exchange rates," says Mr. Adams.

When an economy is growing fast and inflation is rising, central banks such as the Federal Reserve and the European Central Bank tend to raise the cost of borrowing money. Higher interest rates, in turn, tend to boost a currency's value by making securities denominated in the currency more attractive to investors.



NATE KITCH

expectations of fiscal stimulus."

The U.S. economy has recovered faster than that of the eurozone. As a result, it's likely that the Fed will raise the cost of borrowing faster than the

ECB and so propel the dollar higher against the euro.

**Mr. Constable** is a writer in New York. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).

## Equity investment totals have reached \$66 trillion worldwide.

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### SPOTLIGHT | ETF INDUSTRY EXPOSURE

## THE ETF OF THE ETF BUSINESS

The ETF industry has secured that hallmark of a growing market sector: its own ETF.



Financial impact to their shareholders. It includes such names as BlackRock, Invesco and WisdomTree.

The **ETF Industry Exposure & Financial Services** (TETF) exchange-traded fund was launched April 20. It tracks the Toroso ETF Industry Index, which includes a range of companies from index and data providers to fund issuers and exchanges.

The index was set up by New York-based Toroso Investments with the aim of providing investors with exposure to the industry as a whole, says Toroso's chief investment officer, Mike Venuto.

"We thought of the industry as not just being the issuers, but the ecosystem making money off of ETFs," he says.

The index is made up of four tiers. Tier One, which accounts for half of its exposure, includes companies with substantial participation in ETFs that provides a direct fi-

A quarter of the index is in Tier Two; this comprises companies with a substantial participation in the industry that provides an indirect financial impact to shareholders, including Nasdaq and Intercontinental Exchange. Tier Three takes up 15% of exposure, and includes companies with a moderate level of exposure to ETFs, such as FactSet and Bank of New York Mellon. The remaining 10%, in Tier Four, covers companies that are new to the industry or participate in a smaller way relative to their overall business. This tier features names like Eaton Vance and Goldman Sachs.

The index focuses on U.S.-listed companies, though Mr. Venuto says Toroso is open to including foreign companies.

—Gerrard Cowan

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## MARKETS DIGEST

Data as of Friday, May 5, 2017

### Nikkei 225 Index

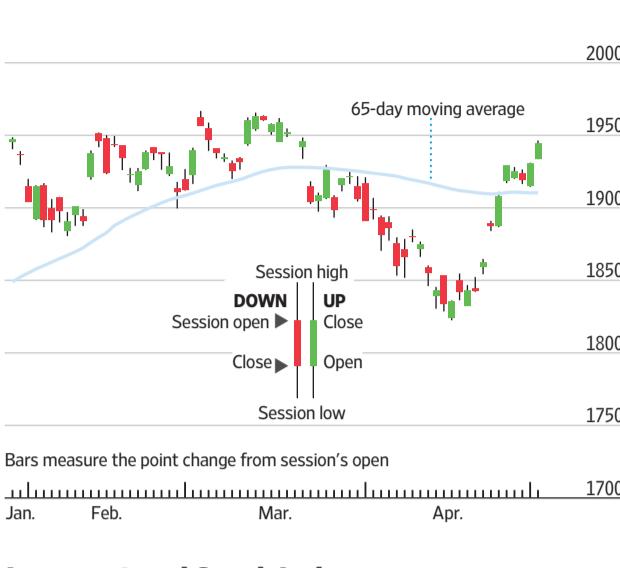
**19445.70** Market Closed

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

Year-to-date  
52-wk high/low  
All-time high

19633.75  
14952.02  
38915.87

▲ 1.73%



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

### STOXX 600 Index

**394.54** ▲ 2.56, or 0.65%

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

Year-to-date  
52-wk high/low  
All-time high

394.54  
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▲ 9.16%  
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## FINANCE & MARKETS

# Morgan Stanley Takes On Vanguard

By SARAH KROUSE  
AND MICHAEL WURSTHORN

**Morgan Stanley** is considering compensation changes for its financial advisers that could discourage them from keeping clients in **Vanguard Group** mutual funds, ratcheting up tensions between one of Wall Street's biggest brokerages and the popular index-fund provider.

In calculating advisers' compensation for customer accounts that are charged an annual fee, Morgan Stanley may no longer count client assets in mutual funds that don't pay the bank for distribution, according to people familiar with the matter. No decision has been made, and the firm is considering alternatives that may still pay advisers for those funds, the people added.

*The bank's proposed move may discourage its brokers from using Vanguard funds.*

Vanguard, an index-fund pioneer that has been a beneficiary of the growing popularity of passive investing, is unusual in the money-management industry because it doesn't pay other firms to sell its funds. The Malvern, Pa., fund company's policy has long caused ire in firms that distribute mutual funds and make money from revenue sharing or other financial arrangements with money managers.

Morgan Stanley has already decided that as of this week its brokers will no longer be able to sell clients new positions in Vanguard mutual funds. But a spokesman for the New York bank on Thursday said clients who already hold Vanguard mutual funds wouldn't be forced to sell them and could add to ex-

isting positions through early 2018. (Vanguard's exchange-traded funds won't be affected by this move.)

Morgan Stanley's aggressive stance toward Vanguard's products is the result of long-simmering tensions in the money-management industry over how fund managers are expected to compensate brokerages for distributing their products, analysts said.

Those tensions have risen in the past year as brokerage and fund managers adapt to the Labor Department's fiduciary rule requiring brokers to act in the best interest of retirement savers. Fund managers and brokerages have been in talks since last year about pricing and distribution changes in order to comply with the rule's goal of minimizing conflicts.

"We're starting to see more public displays of these renegotiations around how these products are manufactured and sold," said Devin Ryan, an analyst at JMP Securities.

Still, Vanguard isn't likely to change its practices in light of the Morgan Stanley move.

"They have a model where they want to be compensated for being on their platform in one form or another, and that's just something we won't do," Vanguard Chairman and Chief Executive Bill McNabb said Thursday on CNBC. "We think it raises inherent conflict."

Compensation is typically calculated based on the amount of fees and commissions financial advisers generate with their respective books of business, the total client assets under management. The plan under consideration would exclude assets in Vanguard funds from those calculations, the people said.

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AHEAD OF THE TAPE | By Steven Russolillo

## U.S. Firms Strike Earnings Gusher



Earnings season has offered plenty of reasons for investors to be optimistic.

Even more good news is on the way.

With over 80% of S&P 500 companies having posted quarterly results, the profit engines at the biggest U.S. public companies are humming along. In an environment of elevated valuations, strong earnings growth helps justify record highs for stocks and suggests the bull market still has legs.

First-quarter earnings are on pace to increase 13.5% from the same period a year earlier, according to FactSet. That would be the third consecutive quarter of year-over-year growth and the quickest pace since the third quarter of 2011, when earnings increased 16.7%.

Growth has been broad-based, with energy, financials and technology leading the way. Ten of the S&P 500's 11 sectors are set to report earnings growth, with the small telecom sector the only one lagging.

Top-line growth has been impressive as well, with revenue, driven by the rebounding energy sector, increasing 7.6% from the prior year.

Two-thirds of companies that have reported have beaten analysts' revenue estimates, exceeding the average beat rate of 53% of the past five years, according to John Butters at FactSet.

One of the key earnings drivers this season has been overseas growth. Companies with more global exposure are expected to report earnings growth of 14.9%, compared with the 6.8% growth for domestically focused firms, according to RBC Capital Markets, which excluded financial companies from its analysis.

To measure global exposure, the firm divided each S&P 500 sector in half based

on how much sales each constituent company generates internationally. That 8.1-percentage-point spread is higher than forecasts of 6.6 points at the beginning of earnings season, and this differential is on track to be the highest in six years.

"People aren't used to seeing this strong growth

this late in the economic cycle," said Patrick Palfrey, an equity strategist at RBC.

The S&P 500 is up 7.2% this year. Trading at 17.5 times forward earnings, the market's multiple is rich. But the brightening earnings environment suggests a pricey multiple isn't necessarily something to fret over right now.

## Comeback Kid

S&P 500 earnings, change from a year earlier



Source: FactSet

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## INTERNATIONAL INVESTMENT FUNDS

[ Search by company, category or country at [asia.wsj.com/funds](http://asia.wsj.com/funds) ]



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FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
VP Classic-B Units	AS	EQ	HKG	05/04	AUD	131.68	14.9	24.4	-6.7
VP Classic-C Units	AS	EQ	HKG	05/04	USD	16.62	15.0	24.5	-6.9
VP Classic-C Units AUD H	AS	EQ	HKG	05/04	AUD	13.72	14.9	25.5	-6.2
VP Classic-C Units CAD H	AS	EQ	HKG	05/04	CAD	13.28	14.7	24.8	-7.7
VP Classic-C Units HKD H	AS	EQ	HKG	05/04	HKD	11.27	14.4	23.2	NS
VP Classic-C Units NZD H	AS	EQ	HKG	05/04	NZD	13.79	14.3	24.5	-5.2
VP Classic-C Units RMB H	AS	EQ	HKG	05/04	CNY	11.55	10.8	28.0	NS
VP Multi-Asset Fund Cls A HKD	OT	OT	HKG	05/04	HKD	10.20	6.0	NS	NS
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	05/04	USD	10.33	5.7	8.2	NS
VP Taiwan Fund	AS	EQ	CYN	05/04	USD	19.00	13.4	30.1	6.8

■ Chartered Asset Management Pte Ltd | Tel: No: 65-6835-8866  
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# MARKETS

## China Jitters Roil Commodities

Softening demand for construction materials is again a big concern pushing down prices

A global commodities slump deepened Friday before prices stabilized later in the day, but iron-ore prices continued to plummet over growing concerns about excess supply and weakening Chinese demand.

Market jitters pushed crude prices down more than a \$1 a barrel, or 3%, in the space of 10 minutes in early Asia trading, although prices recovered and settled higher in London and New York.

The slide briefly took oil prices down 10% for the week, one of the biggest drops since January 2016, when global markets plummeted on concern about the health of China's economy.

The price of iron-ore futures, considered an indicator of demand for the key steel-making ingredient, dropped 7.5% Friday on China's Dalian Commodity Exchange. That followed an 8% tumble to the trading limit the previous day.

Iron-ore futures are at their lowest levels since November and down 31% from the 2½-year high reached in February. Futures prices for a pair of steel products traded in Shanghai fell as much as 8% for the week.

Iron ore's losses may have been aggravated because it is primarily traded in China, where the markets are notorious for speculative trading. Investors also aren't nearly as skeptical about the outlook for China's economy as they were during market sell-offs early last year.

But analysts say concerns over softening demand in China for construction materials such as steel are once again a big factor in the falling prices. Those concerns

### Heavy Metals

Swings in commodities prices last week weighed on major stock indexes, which finished higher as economic data pointed to continuing growth.

The volatility gauge hit a decade low on May 1 and has remained muted.

CBOE Volatility Index

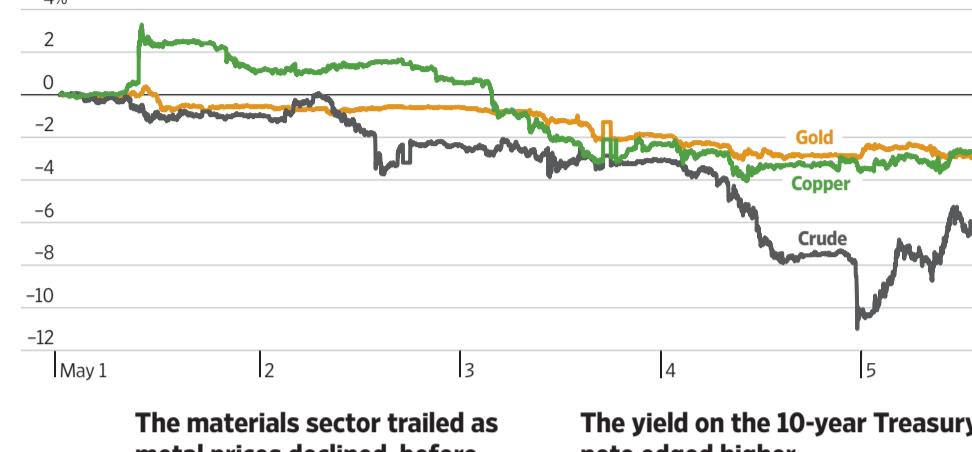


Note: Copper and Gold closed at 1:30 p.m. ET Friday

Sources: FactSet (commodities, VIX, S&P 500); Thomson Reuters (yield)

Oil and metals fell amid concerns about stockpiles and demand.

Performance last week



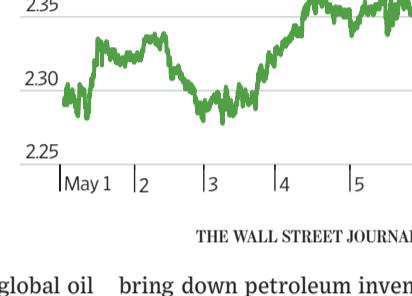
The materials sector trailed as metal prices declined, before recovering Friday.

Performance last week



The yield on the 10-year Treasury note edged higher.

Yield on 10-year Treasury note



THE WALL STREET JOURNAL.

reflect weaker manufacturing data and recent moves by Chinese regulators that could curb growth in areas such as housing and infrastructure construction.

Inventories of imported iron ore at China's 45 major ports rose to a record of more than 130 million yuan at the end of March, and climbed to more than 135 million tons last week, according to the China Iron and Steel Industry Association.

"There has been a visible shift of sentiment in the financial market," said Sun Yonggang, an analyst at Chaos Ternary Futures Co. "Over 80% of the steel trad-

ers we talked with were upbeat about the outlook in the first quarter. But now they have all turned pessimistic."

The fall in oil prices last week took crude to its lowest intraday level since November, right before the Organization of the Petroleum Exporting Countries and other oil producers including Russia supported the market by announcing a six-month agreement to cut production.

A decision on whether to extend, and possibly increase, those cuts is due at an OPEC meeting later this month. But traders in recent days have lost faith that the current production caps are doing

much to reduce the global oil glut that has pressured prices since 2014. Global oil inventories are still robust. And American shale-oil producers are producing even more than many analysts had expected in the wake of the OPEC production cuts.

Moreover, some estimates show that despite the November deal, OPEC's total production is still above the agreed-upon cap. That could be confirmed by the cartel's production report for April, which is scheduled for release in the coming week.

"OPEC's failure to raise oil prices is fundamentally linked to their failure to

bring down petroleum inventories," Bernstein Research said in a report on Friday.

Another factor depressing oil prices is that China could be buying less than previously expected.

That is because of a new rule, announced in the previous week, that the country will no longer accept applications from privately owned refineries, known as "teapots," for the right to import crude.

The rule doesn't apply to 21 refiners that have already been issued the necessary permits.

—Jenny W. Hsu  
and Yifan Xie

## As Crude Falls, Bulls Still Keep The Faith

By STEPHANIE YANG

Some Wall Street analysts are keeping their bullish forecasts for oil prices, despite a 13% plunge in crude over the past three weeks.

A production cut by the major oil-producing nations hasn't brought about the significant drawdown in oil storage that many analysts expected. But banks are still betting that the oil glut will ease this year.

Goldman Sachs Group Inc. analysts wrote Friday that fundamental supply and demand continued to improve in April. The bank attributes the recent selloff to bearish momentum and a broader commodity drop led by metals and Chinese demand concerns.

U.S. oil prices fell to a five-month low on Thursday. Prices recovered on Friday, gaining 1.5%, to \$46.22 a barrel, but crude fell 6.3% for the week.

Expectations for the Organization of the Petroleum Exporting Countries to extend cuts this month have added to the upbeat perspective.

"We further expect inventory draws to accelerate, supported by our expectation for robust demand growth, despite recent concerns and potentially further helped later this year by the building consensus among OPEC producers on extending the cuts," Goldman said in the Friday report.

Still, traders are focusing on increasing U.S. shale activity and high levels of crude and products in storage.

"Patience was already wearing thin" during the week, Credit Suisse Group AG analysts said in a Friday note. "However, we think fundamentals are looking incrementally constructive."

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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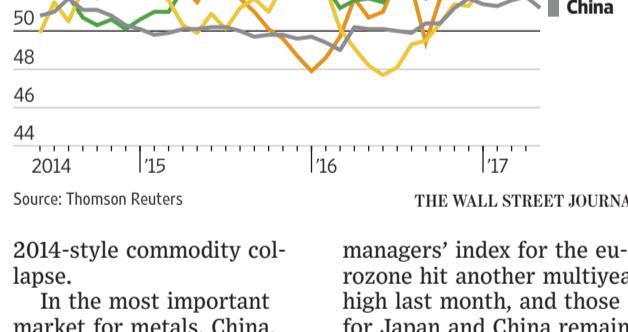
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## Prices Begin to Tune Out Noise

### Good Again

Manufacturing Purchasing Managers' indexes.

Above 50 indicates expansion.



Source: Thomson Reuters

clearly lost control of the market—again—and U.S. gasoline demand is phlegmatic. If U.S. consumers don't show up for the summer driving season in force, oil will be in trouble.

Nonetheless, there are reasons for guarded optimism. For one, the quick falloff in output from shale wells after completion means drillers can increase or decrease production relatively quickly. That is one reason oil prices have been confined within a range since the initial recovery in mid-2016.

If prices continue to fall toward \$40 a barrel, the big surge in U.S. drilling activity will run out of steam quickly. On the demand side, lower prices may tempt thrifty U.S. consumers back into their SUVs this spring.

Commodity investors have awakened from their sweet postelection, post-China-stimulus dream. Yes, reality is harsh, but it shows few signs of devolving into a nightmare.

—Nathaniel Taplin

### OVERHEARD

From the people who didn't cover themselves in glory a decade ago during the financial crisis come some not-very-reassuring words about South Korea. Moody's Investors Service thinks that a military conflict with North Korea would be "credit negative" for its southern neighbor.

Moody's gives South Korea's vibrant economy, the fourth largest in Asia, a relatively high AA2, between the ratings placed on peaceful, prosperous Austria and Belgium and the same as Kuwait's. The country's main stock index just hit a record.

But calling a military conflict "credit negative" puts reassurances about subprime mortgages being "contained" to shame should a conflict actually come to pass. Aside from its 10 to 20 nuclear warheads, North Korea has one of the world's largest militaries and could devastate South Korea's main population centers with conventional artillery and rockets. Sounds far scarier than a basket of liar loans.

## Lending Club Experiences Growth Woes

LendingClub seems stuck in the doldrums, and investors are running out of patience.

The company, which makes loans online to consumers and sells them to investors, reported first-quarter earnings that beat analyst expectations and raised its full-year forecast slightly. Nonetheless, shares fell 5.6% Friday.

Weaker-than-expected revenue and profit guidance in the second quarter were partly to blame.

A more fundamental issue is a lack of growth. Loan originations have essentially been flat for four straight quarters. Initially, this reflected a strike by buyers of the company's loans following last year's sales-practice scandal and management shake-up. They gradually returned to the platform as new management and safeguards were put in place.

Now, it is concern over consumer-credit quality that has been constraining demand, says Guggenheim Securities.

LendingClub didn't directly address investor concerns, but it began tightening lending standards in the first quarter.

The company is also seeking new sources of growth. In October, it started making loans to car owners using their vehicles as collateral. Asked by an analyst about rising risks in this area, Chief Executive Scott Sanborn said he sees an opportunity to be "greedy when others are fearful."

But ultimately, LendingClub can only be as greedy as its now-cautious loan buyers. It may be time to stop thinking of LendingClub as a growth stock.

—Aaron Back

## Beijing Tightens Regulatory Screws on Chinese Insurers



REUTERS

Anbang's Beijing headquarters

new products for three months. It said Anbang dodged rules by selling short-term products disguised as long-term insurance policies.

These cash flows were

typically used to finance the insurer's other activities, including large-stake buyouts in property developers as a play on the Chinese real-estate market and ambitious bids—many failed—for large, illiquid assets at home and abroad. Anbang famously bid, and then withdrew its offer, for Starwood Hotels & Resorts. The insurance products on offer have low surrender penalties and low protection but high crediting rates, and helped insurers build cash stock.

More broadly across China, insurers are steering clear of riskier investments. After rising sharply last year, the share of insurers' invest-

ment books in alternatives such as big stakes in private companies and debt asset-management plans fell in January compared with December, after rising for the past four years.

Anbang Life still holds 16% of the life-insurance market by premiums, the latest insurance-regulator data show. That means that even as the type of short-term products with high guaranteed rates that it specialized in have been barred, the risk of an asset-liability mismatch remains high.

China let its insurance industry go wild. The cleanup has just begun.

—Anjani Trivedi