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Dubai fears continue rising

BY NIKHIL LOHADE
AND SUMMER SAID

DUBAI—The stock market here fell sharply Monday amid concerns about the city-state's creditworthiness after the government last week asked for a six-month debt standstill for one of its companies, Dubai World.

Dubai officials, meanwhile, appeared to damp the hopes of some bondholders that government support was imminent. A government official said late last week that Dubai would provide more clarity early this week. Instead, two senior government officials Monday stressed that the government wasn't obliged to step in to support Dubai World.

"Creditors need to take part of the responsibility for their decision," said Abdulrahman Al Saleh, director general of Dubai's Department of Finance, on Dubai TV Monday. He said that while the government owns the firm, the debt isn't guaranteed by the government.

Some people close to U.K. banks that have exposure to Dubai World said they saw Mr. Saleh's comments as political posturing. They said the banks remained optimistic that their money would eventually be repaid with the help of Dubai, or the United Arab Emirates federal government based in next-door Abu Dhabi.

Meanwhile, Dubai's chief of police Lieutenant General Dhahi Khalfan Tamim criticized the media for confusing Dubai's sovereign debt with that of government companies. It was a "mistake to mix between the two debts and a mistake that should be corrected," said Mr. Tamim, who also heads the Dubai government's budget committee.

A Dubai World spokesman declined to comment on efforts by the company to reach out to bondholders about the standstill.

The comments came after U.A.E. markets fell sharply on the first day of trading since the standstill announcement. Trading had been halted for the Eid holiday that started Thursday and ran through Sunday.

Dubai's main index of stocks tumbled 7.3% to 1940.36, while Abu Dhabi's slid 8.3% to 2668.23. The losses helped wipe off a combined $9 billion from U.A.E. markets.

"The selloff was ugly," said Mohammad Ali Yasin, managing director at Shuaa Securities. Late Sunday, the central bank of the U.A.E. said it would pump liquidity into lo-

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Reuters

An investor used his mobile phone at the Dubai Financial Market on Monday. Stocks fell sharply in the city-state.

Iran seizes U.K. yacht and detains crew of five

BY ALISTAIR MACDONALD

Iran has detained five British yachtsmen after stopping their racing craft in the Persian Gulf, the British government said Monday, a move that could escalate Tehran's standoff with the international community.

Iran announced a large expansion of its nuclear program on Sunday and threatened to pull out of the Nuclear Non-Proliferation Treaty. The U.K. government has been a vocal critic of Iran's nuclear policy, and worries are increasing that Iran may be seeking leverage in negotiations with the West over Tehran's nuclear ambitions.

On Monday, the British Foreign and Commonwealth Office said a racing yacht owned by a sailing team called Sail Bahrain and crewed by five British nationals had been stopped by Iranian naval vessels on Nov. 25. The yacht had been on its way from Bahrain to Dubai and "may have strayed inadvertently into Iranian waters," an FCO spokeswoman said.

The foreign secretary, David Miliband, said the government was in contact with the Iranians.

"FCO officials immedi-

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U.K. broker scolds FSA head

BY RENÉE SCHULTES
AND LAURENCE NORMAN

A high-profile City of London broker said he was "genuinely offended" by the assertion made by Adair Turner, chairman of the Financial Services Authority, that large parts of today's banking system were socially useless.

In a magazine interview in September, Lord Turner had questioned the social utility of banking: "Clearly, the bits of the financial system that relate to fixed income securities, trading, derivatives, hedging, but possibly also aspects of the asset management industry and equity trading, have grown beyond a socially reasonable size."

Michael Spencer, chief executive of U.K. inter-dealer broker **ICAP** PLC and treasurer of the U.K.'s opposition Conservative Party, said the remark had offended him at the Financial News Awards for Excellence in Investment Banking on Monday evening.

"Using his logic I presume he would describe Porsche as socially useless for making cars that go twice the speed limit or Jimmy Choo for making shoes in dozens of different colours."

Mr. Spencer also railed against Lord Turner's recommendation of a so-called Tobin Tax on financial transactions, which he said would only damage London. "I am personally hugely proud of the City. I think our regulators should be as well."

Mr. Spencer blamed the Labour government's splitting of supervisory responsibilities between three institutions for the government's failure to spot the early warning signs of the crisis. He said the Bank of England would better serve as central supervisor. "Box ticking and compliance alone, however ingeniously devised, can never create an adequate framework for every eventuality," he said.

Separately, the Treasury is likely to force banks to disclose more information on pay than recommended in a Treasury-commissioned report last week by David Walker, Chancellor of the Exchequer Alistair Darling said Monday. The report recommended that financial firms should disclose how many executives earn more than £1 million ($1.6 million). Mr. Darling told lawmakers he would consult on whether to oblige banks to also publish information on executives earning less than £1 million.

PAGE TWO

Brussels should join in belt tightening

[Agenda]

By Patience Wheatcroft

Across Europe, governments are being forced to examine their budgets and see what might be cut. An age of austerity is being prescribed as the painful remedy for the debt-laden difficulties that now beset countries struggling to haul themselves out of recession.

Ironically, it is only the government of Europe itself that determinedly eschews the new mood. The European Parliament has decided that every area of its budget needs to be increased, so it has set the draft budget for 2010 at €141 billion ($211 billion), against the current year's €136.8 billion.

Making 2010 "the European Year for Combating Poverty and Social Exclusion" may be a noble objective but, with just €10.5 million of the funds destined for that project, total success seems unlikely. Nevertheless, the EU will be doing its bit to combat poverty among its own armies of staff, since a salary increase of 3.7% is being proposed for them—a figure well ahead of inflation numbers in most member states.

Managing the payroll for around 40,000 people is a hefty task, as was underlined by the European Commission, the EU's executive arm, recently. An advertisement for a new director of the "Office for Administration and Payment of Individual Entitlements" spelled out that the department had a budget of some €3.9 billion. "Its mission" explained this prime example of Eurocratic jargon 'is to determine, calculate and pay the financial entitlements and remuneration of staff in an inter-institutional perspective and with clear client orientation."

To do this, it has about 500 staff of its own and an administrative budget in the order of €34 million. No doubt, after the preliminary draft budget has been ratified by the European Parliament later this month, those numbers will be increased.

Sipa Press

The commission should look to its own finances, not just those of EU nations.

There will be few hands raised against the increased spending commitments. The majority of those inside the European Parliament want the EU to be bigger and more powerful rather than less. Yet there are some who are prepared to voice their dissent, most notably Marta Andreasen, a British Member of the European Parliament. She has persistently criticized the lax way in which EU spending is controlled, and she has inside knowledge on the matter, having been the EU's chief accountant. In that role, she made her presence felt sufficiently to ensure that she was unceremoniously removed in 2004. She had the audacity to speak out against the fact that auditors routinely each year refused to sign off the EU accounts without qualification.

Ms. Andreasen argued that for an organization handling public money to have its accounts fail to pass muster was an untenable situation. And surely she is right. Investors would be very wary of any company that couldn't satisfy its auditors about the way in which it handled funds.

But the countries that hand over billions of euros to finance the EU seem content with the situation. Ms Andreasen, being made of sterner stuff, now continues her opposition from the benches of the European Parliament. Her effort to win a senior position on the Parliament's influential budgetary-control committee was voted down in the summer but she was undeterred "My priority will always be transparency and accountability in public funds," she said.

It may be too early to judge what will be the priorities of those who have just become new stars in the EU firmament, but it is unlikely that they will share the former chief accountant's priority. Neither will they concur with her forcibly expressed view that, in these straitened economic times, the EU should be trimming its budgets, not growing them.

The commissioners haven't in the past demonstrated a wish to scale down their departments, rather to increase their reach and complexity. The trio who now hold the top economic posts are career politicians, noticeably light on any business experience. As they pick up the reins at the competition, trade and internal-markets directorates, they will almost certainly begin the process that will see more job advertisements being drafted.

The EU spin doctors are aware of the need to address the difficulties that member states are suffering. The official literature about the budgets makes great play of the need to stimulate economic recovery. It is, we are told, "at the heart of next year's spending." But in 2009, when economic recovery was certainly in need, 45% of the EU's spending went on agriculture.

Despite all those directorates, the Common Agricultural Policy still makes a massive claim on EU resources. The proportion of that which doesn't necessarily reach its designated destination is one of the reasons for those auditors' qualifications.

Now, as member states agonize about how to bring their own finances into order, surely it is time for the EU to take a more serious view of its own finances. It might, for instance, take this opportunity to revisit the question of whether the massive monthly decampment of the Parliament and its attendant staff from Brussels to Strasbourg is really necessary.

The round trip of more than 800 kilometers involves many truck-loads of documents as well as literally thousands of individuals, many of whom don't like to travel steerage.

The idea of moving the center of Europe to Strasbourg on a regular basis was dreamed up as a sop to the French when the parliament was settled in Brussels. It now looks like a very expensive and disruptive exercise which can do nothing for the efficiency of the organization itself.

The European Central Bank has been wagging its finger at member states, demanding they take a scythe to their spending and restore their economies to a semblance of health. The European Parliament might make similar demands of itself and the commission.

What's News

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Iain Martin on Politics

blogs.wsj.com/iainmartin

"Competition and the free markets that facilitate it are not the threat Phillip Blond claims."

Iain Martin in "The Problem With Blond: He's Wrong About Markets"

Continuing coverage

Follow developments in Dubai's debt crisis and join readers in a discussion at **wsj.com/mideast**

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Will the EU's proposed market regulations work?

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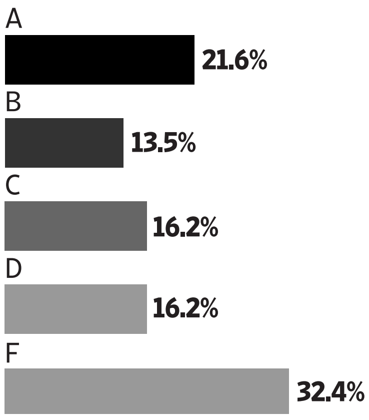

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NEWS

Pirates steer oil tanker to Somalia

By Spencer Swartz
And Sarah Childress


Reuters

Portuguese forces capture pirates who attacked a Spanish-flagged vessel in the Indian Ocean, in a photograph from NATO.

NAIROBI—Hijackers who seized an oil tanker Sunday in the Indian Ocean are steering it toward a pirate stronghold on the Somali coast, according to the European Union's antipiracy task force.

The hijacking highlights concerns about the impact that pirates' ability to attack further out at sea could have on the global oil market.

The Maran Centaurus, a Greek-owned tanker, was carrying 93.5 million gallons of crude, valued at about $175 million, from Saudi Arabia bound for New Orleans, La.

The EU task force said it was waiting for the hijackers to contact the ship's owner when it arrived in the so-called pirate town to demand a ransom. "That's what we've seen with the other ships," said spokesman Lt. Cmdr. Daniel Auwermann. There were 28 crew members on board, according to the task force.

A man who identified himself as a pirate commander named Farah Yusuf in Hobyo, a Somali pirate town, said the crew had tried to resist, but the pirates fired in the air, boarded the ship and overpowered them. "We will dock [the ship] in Hobyo," Mr. Yusuf said.

In November 2008, a Saudi tanker hauling two million barrels of oil was hijacked by pirates in the same region. The Sirius Star was held for two months before it was released. Men who identified themselves as pirates told the Associated Press they had received a $3 million ransom.

Sunday's hijacking had little impact on crude prices Monday, with oil inventory globally standing at a multi-year high at onshore storage facilities and offshore tankers. But some analysts warned the trend of tanker hijackings has longer-term implications for the oil market. Despite the heightened risk of pirate attacks, tankers carrying crude oil and other petroleum products sail dangerous waters to use the Suez Canal, which offers a faster route to the U.S. and Europe.

International navy patrols in the busy shipping lane in the Gulf of Aden have led pirates to expand their reach and launch attacks further down the East African coast, near the Seychelles. The Maran Centaurus was captured about 1,125 kilometers northeast of that island nation, according to the EU task force.

"We are seeing pirates move farther out to sea in an effort to be where coalition vessels are not," said Lt. Matt Allen, a spokesman for the U.S. Navy's Fifth Fleet.

The U.S. Fifth Fleet estimates that almost 190 pirate attacks have occurred this year around the Gulf of Aden and the Arabian Gulf, up a little more than 50% from all of last year.

Pirates have successfully hijacked ships in about 40 of those incidents this year, although Lt. Allen noted that the percentage of successful hijackings is still lower relative to last year. Pirates currently are holding 11 ships and 264 hostages, according to the EU's task force.

"It [the issue] adds another geopolitical 'hot potato' which could see the financial community go bullish on oil once again" further down the road, said oil analyst Richard Gorry of JBC Energy in Vienna.

Crude oil in New York on Monday rose $1.23 a barrel, or 1.62%, to $77.28, following a sharp sell-off Friday on fears about the fallout from Dubai's financial woes.

The heightened risk has been a boon to insurance providers willing to cover ships passing through the Gulf of Aden and along the east coast of Africa.

William Miller, a risk executive at Willis Group, a global insurance broker, said the number of insurance providers for such shipping has roughly doubled, to around 10, in the past 18 months. That has helped bring insurance costs down for ship operators though demand for coverage remains brisk, he said. A typical ship journeying through the Gulf of Aden might cost around $20,000 to insure today, compared to as much as $35,000 last year, he said.

But insurers have gotten pickier about which routes they will cover, imposing "exclusion zones," or regions they won't provide coverage for, such as the waters off the Somali coast.

—Abdinasir Mohamed in Mogadishu contributed to this article.

Iran seizes U.K. yacht, crew

Continued from first page

ately contacted the Iranian authorities in London and in Tehran on the evening of 25 November, both to seek clarification and to try and resolve the matter swiftly," he said.

In October, a New York judge ruled that the America's Cup, which was planned for February in Ras al-Khaimah, United Arab Emirates, can't sail there.

Software tycoon Larry Ellison had asked the judge to reject the site in the United Arab Emirates for next year's America's Cup race because of, among other things, security worries. The emirate is roughly 60 kilometers from the southern coast of Iran.

In August, Swiss pharmaceuticals heir Ernesto Bertarelli's sailing team, Alinghi, the current Cup defender, and its yacht club chose the city-state as the venue for the showdown with Mr. Ellison's BMW Oracle team.

The race now looks set to begin on Feb. 8 in Valencia, Spain, after the Alinghi team dropped its opposition.

The detention echoes an episode in March 2007, when 15 British naval personnel were detained in the Gulf by Iran at a time of escalating tensions between the country and Western powers. The Iranians claimed the British crew was trespassing in its waters while the U.K. said they were taken in Iraqi waters. Iran goaded Britain with the capture, televising footage of some of the personnel saying they had been in Iranian waters and apologizing for this, before eventually sending them home two weeks later in new suits. The crew members later recanted their apologies.

The U.K. and Iran have a long history of antagonism, stemming mainly from Britain's colonial involvements in the region. This summer Iran was quick to accuse the U.K. of stirring up the public protests that followed President Mahmoud Ahmadinejad's disputed June re-election, something the British deny.

The five crew members, whose families have been informed of their detention, are safe and well in Iran, an FCO spokeswoman said.

According to its Web site, a group called Team Pindar—described as one of the world's "leading independent sailing teams"—recently launched a project called Sail Bahrain. Sail Bahrain operates an 18-meter yacht called the "Kingdom of Bahrain" that, with a nine-member crew, was to join the Dubai-Muscat Offshore Sailing Race last week. The 660-kilometer race was to begin Nov. 26 in Dubai and finishes in Muscat, Oman.

The seizure follows the July detention by Iran of three American hikers, who appeared to have wandered across the Iranian border from northern Iraq. Last month, prosecutors said the three, who are still detained, were suspected of espionage.

In April, Iran charged Iranian-American journalist Roxana Saberi with espionage and sentenced her to eight years in prison. In May, Iran freed her. Two months later, the U.S. military freed five Iranian diplomats it was holding in Iraq. That triggered speculation of a deal, though both sides have denied it.

A U.S. Navy spokesman referred questions about the report of the yacht seizure to the Royal Navy.

—Chip Cummins contributed to this article.

EUROPE NEWS

Associated Press

European Commission President Jose Manuel Barroso, right, speaks at the closing of the EU-China summit in Nanjing as Chinese Premier Wen Jiabao looks on.

EU-China talks yield little

Trading partners exchange barbs over yuan, climate change, development and human rights

By James T. Areddy

NANJING, China—Chinese and European Union leaders appeared to make little headway on currency, climate and market access in a round of high-level talks that ended Monday in this eastern Chinese city.

The two-day China-EU summit was billed as a chance for the two major trading partners to tailor exit policies from a year of global recession, as well as an opportunity to refine positions ahead of the Copenhagen conference on climate change. Instead, the two sides traded barbs over those issues plus others such as development strategies and human rights.

EU officials pressed their argument that Beijing could loosen the yuan's rigid exchange rate against the U.S. dollar to help rebalance the world financial system.

Addressing reporters after their formal meetings Monday, Chinese Premier Wen Jiabao, flanked by his European counterparts, responded to that call with a pointed assertion that the 27-nation bloc maintains trade policies to which China objects. "This is unfair," Mr. Wen said. "Their measures are restricting China's development."

Swedish Prime Minister Fredrik Reinfeldt, who is the current president of the European Council, the assembly of EU leaders, acknowledged Beijing's pledge last week to reduce the growth in its carbon emissions between now and 2020, but said it doesn't do enough to seal a global deal to keep the planet from warming. "We can't solve the climate challenges for mankind without China being part of the solution," he said.

In a speech later to a Sino-European business conference connected to the summit, Mr. Wen highlighted what he called the "great cost to the resources of the whole world" from 200 years of industrialized nations' development. He listed ways China is not only supporting world economic growth during its own "difficult period," but also keeping its eyes on emission output controls. Its investments in hydropower and nuclear power, as well as the closure of dirty coal mines, he said, underscore "China's sense of responsibility to the Chinese nation and the entire human race."

The EU and China are among each other's largest trading partners. Each also endorses a multipolar world, preferring to address challenges in larger groups such as the Group of 20 nations.

Still, concrete action in Nanjing was limited to technical agreements covering areas such as construction codes and clean-energy research. A joint communiqué from the closed-door summit was light on specifics and signaled little sign of fresh momentum in the relationship.

The yuan's de facto peg to the dollar means it has depreciated significantly against the euro in recent months, even though many economists say there should be upward pressure on the yuan. The euro's strength against the yuan has remained vexing to European politicians, who worry the exchange rate limits buying power of the fast-growing Chinese economy at a time unemployment in EU markets is high. The yuan gained more than 20% against the dollar in the three years after China formally depegged the two currencies in mid-2005, but that did little to address exchange-rate issues with the euro, and the yuan's dollar peg was effectively re-established in mid-2008.

Mr. Wen reiterated that China "doesn't seek a trade surplus that is beyond a reasonable level." Instead, he highlighted Europe's barriers, like export limits on Europe's highest technology, and called for his counterparts to "fully unleash the industrial advantage of the EU."

The postsummit declaration didn't specifically mention currency dynamics. Instead, it said that to "effectively address the current economic and financial crisis, the two sides agreed to step up efforts to promote trade and investment and increase effective market access."

U.K. to push back on regulations

By Adam Cohen
And Brian Blackstone

BRUSSELS—European Union finance ministers Wednesday will try to reach agreement on a new regulatory framework for the bloc's financial markets, but they could face resistance from the U.K.

The home to the EU's largest financial center is worried about ceding control over the City of London to a powerful new EU committee.

It also wants to ensure that its taxpayers can't be forced to fund bailouts for banks operating across the bloc's borders, and that there are clear limits to the power this group has to determine national spending priorities, EU diplomats say.

EU diplomats say a deal is within reach, but the precise language and powers given to the planned supervisory groups could cause some last-minute bickering during the ministers' regular monthly meeting in Brussels.

Under the proposals the ministers will discuss, the EU would create two new supervisory groups for financial markets: a "macro-prudential" body to study big-picture risks to financial stability, and three "micro-prudential" groups to look at specific issues in the banking, securities, and insurance and pension sectors.

EU finance ministers in October broadly agreed to the macro-prudential supervisor, known as the European Systemic Risk Board, but they weren't able to agree on specific powers and voting procedures for the micro-prudential overseers, known as the European System of Financial Supervisors.

As planned, the three industry-focused groups would be responsible for harmonizing the procedures of national regulators and would also have the authority to resolve disagreements between countries and to coordinate action in a crisis—such as the faltering of a large bank that does business across borders.

The U.K. wants to be sure that there are clear limits to the power this group has to determine national spending priorities, EU diplomats say.

Other powers of the new regulatory groups are circumscribed. The European Systemic Risk Board would be able to issue warnings and recommendations, but would have to rely on "moral suasion and peer pressure," according to Joaquín Almunia, the EU Commissioner for Economic and Monetary Affairs.

Mr. Almunia has cited the euro-denominated mortgages taken out by non-euro-zone households before the financial-market meltdown as the type of systemic risk the board would warn against.

Separately, the economic recovery and rising energy prices pushed euro-zone inflation into positive territory after five straight declines, a signal that the currency zone has averted a more pronounced and dangerous spell of price drops known as deflation.

Consumer prices in the euro zone rose 0.6% in November from one year ago, the European Union's statistics agency Eurostat said on Monday. The year-on-year increase, which was slightly higher than economists had expected, was the first since April. In October, consumer prices were down 0.1% from a year earlier.

"With core inflation likely to remain subdued and eventually fall in response to the huge amount of spare capacity in the economy, the headline rate is likely to begin to drop again and could eventually fall below zero again," said Ben May, euro zone economist for Capital Economics.

BOE may need to rethink stimulus effort

By Natasha Brereton

LONDON—The Bank of England may need to alter its special economic-stimulus program, new data suggested Monday.

Britain's broadly defined money supply, which measures money flowing through the economy, contracted again in October, and consumer credit posted its biggest net drop on record. The data, published Monday, are important because they indicate whether the extra funds the BOE has injected into the financial system are feeding businesses and households.

Prime Minister Gordon Brown's government has been under intensifying political pressure since its economy continued to contract in the third quarter, a period when major European economies such as Germany and France began expanding.

The government expects a return to growth at the start of the new year. But economists now see a growing chance the BOE's monetary-policy committee will again raise the ceiling of its bond-purchasing program, currently at £200 billion ($335 billion), to generate more cash for the economy.

The measure, also known as quantitative easing, is an alternative adopted by several central banks to support their systems during the credit crisis. The BOE is to hold its next major review of the program in February, but it could take action before then.

The bond-purchasing program has taken the strain off capital markets and has even aided government borrowing, but small businesses and consumers haven't seen much benefit, said Ross Walker, chief U.K. economist at Royal Bank of Scotland.

"There remains minimal evidence of any significant benefit for large swathes of the real economy," he said.

That also is reflected in consumer sentiment. The polling firm GfK NOP said Monday that U.K. consumer confidence weakened in November for the first time since January, slipping to minus 17 from minus 13 in October. Confidence had improved significantly in the two previous months, rising from minus 25 in August.

Some economists believe it may be time for the BOE to rethink its strategy. Monetary Policy Committee member Adam Posen noted in testimony to British lawmakers last week that there would be a case for buying more assets other than U.K. government bonds if the bank felt the policy wasn't working as hoped.

Executive Director for Markets Paul Fisher said last week that the committee will continue private-sector debt purchases "for as long as they are judged to be necessary," independent of when it decides to start tightening monetary conditions.

The data show that Britain's economy is in far from robust health. The BOE's preferred broad money measure, which excludes financial corporations, whose practices distort the trends in the data, contracted 0.7% in October, marking its second consecutive month of decline and representing a 5.3% drop on a three-month annualized basis.

—Nicholas Winning and Paul Hannon contributed to this article.

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Muslims condemn Swiss vote

Leaders call ban on building new minarets an 'insult,' while Swiss businesses keep low profile

By Deborah Ball

ZURICH—Muslim leaders from around the world condemned a vote in Switzerland to ban the construction of minarets in the Alpine country, raising fresh fears of a backlash against Swiss interests around the world.

Voters in Switzerland approved a referendum Sunday to ban the building of new minarets on mosques. Nearly 58% of voters, and all but four of the country's 26 cantons, supported the initiative, with support for the ban reaching 70% in some regions.

The outcome was a surprise in a country that has had far fewer problems with the integration of its Muslim minority than its European neighbors. As a result, the government braced for a possible backlash against Swiss businesses, even as companies themselves took a low-key response to the outcome, hoping not to stir tension.

Political and religious leaders of Muslim countries were quick to condemn the vote. Maskuri Abdillah, head of Indonesia's biggest Muslim group, Nahdlatul Ulama, said the vote reflected "a hatred of Swiss people against Muslim communities."

Egypt's top cleric, Ali Gomaa, called the referendum an "insult" to Muslims, while the Organisation of the Islamic Conference, the largest international Muslim group with 57 member states, called the vote a "recent example of growing anti-Islamic incitements in Europe by extremist, anti-immigrant, xenophobic, racist, scare-mongering ultraright politicians who reign over common sense, wisdom and universal values."

"It is a bad answer to a bad question," Babacar Ba, the Geneva ambassador of the Islamic conference told Swiss journalists Monday. "I fear that this kind of thing is simply a gift to extremism and intolerance."

The Swiss foreign ministry began Monday to try to ease tensions with the Muslim world. Top diplomats in Bern have contacted leaders of Islamic organizations, including the Islamic conference. Swiss diplomats in Muslim countries also have reached out to local foreign ministries to assure governments that the referendum doesn't restrict the right of Muslims in Switzerland to practice their religion.

Agence France-Presse/Getty Images

Imam Youssef Ibram stands next to a vandalized sign at the Islamic Cultural Foundation in Geneva on Monday.

Despite the rhetoric, there were no reports Monday of incidents against Swiss interests. The Swiss government, which waged an aggressive campaign against the initiative, has feared a backlash similar to that suffered by Denmark several years ago after the publication of cartoons depicting the prophet Mohammad, when consumers boycotted Danish goods and protesters attacked Danish embassies in some countries.

In the run-up to the Swiss referendum, the government studied the Danish leadership's reaction to that incident to prepare for a possible yes vote. As a result, Swiss diplomats in recent months have worked to calm concerns in Muslim countries about the initiative.

On Monday, Swiss companies kept a low profile in the wake of the vote, declining to discuss any possible retaliation while urging the government to work to calm tensions with the Muslim world.

A number of Swiss companies, such as engineering group **ABB** Ltd. and food maker **Nestlé** SA, have large interests in Muslim countries. Nestlé has about 50 factories in the Muslim world and is the world's largest producer of halal food, or food permissible under Islamic law. Nestlé has recently begun expanding its halal business in Europe, to cater to the Continent's growing Muslim population.

"Nestlé cannot be associated with any form of discrimination," the company said in a statement.

Switzerland's main employer's association, Economiesuisse, called in a statement for the government to "limit the potential damage" by keeping a dialogue open with Muslim leaders.

At a business conference in Zurich, Hans-Ulrich Meister, head of Switzerland for **Credit Suisse Group**, played down concerns.

Clients in the Muslim countries "typically are huge investors and very professional," he said. "They can differentiate between direct democracy banning minarets and religious freedom, but the political bodies in Switzerland have to explain this."

Nonetheless, the government suggested Swiss business could suffer somewhat as a result of the vote, despite efforts to calm the reaction in Muslim countries.

"I am assuming our trade relations with other countries will become more difficult," said Justice Minister Eveline Widmer-Schlumpf at a news conference Sunday evening.

—Summer Said and Katharina Bart contributed to this article.

Blair aide says U.S. wasn't set to stay in Iraq

Associated Press

LONDON—American troops didn't expect to play a role in stabilizing Iraq after overthrowing Saddam Hussein, a key adviser to former British Prime Minister Tony Blair said Monday.

David Manning, who served as a Blair's top foreign-policy aide before being appointed ambassador to Washington in 2003, told a British inquiry into the Iraq war that the American military didn't believe peacekeeping was their responsibility.

"The American military thought that they were fighting a war and when the war was over they were expecting to go home," he said.

"I was very struck... by the reluctance of U.S. soldiers to get out of their tanks, to take off their helmets and to try to build up links with local communities," he said. "They looked still much more in fighting mode than in peacekeeping mode."

He also said he believed Paul Bremer—the U.S. diplomat charged with overseeing the reconstruction of Iraq—made the situation worse by trying to purge the army and police of members of Saddam Hussein's Baath party.

The inquiry, in its second week, isn't set up to apportion blame or hold anyone liable for the conflict, but it does have the potential to embarrass officials in the U.S. and Britain who argued—wrongly—that the war was justified because Saddam was developing weapons of mass destruction and building close links with al Qaeda.

Mr. Manning said then-President George W. Bush talked about possible links between Saddam Hussein and al Qaeda right after the Sept. 11 terror attacks, but that Mr. Blair had counseled caution.

"The prime minister's response to this was that the evidence would have to be very compelling indeed to justify taking any action against Iraq," Mr. Manning said, adding that the British leader followed the conversation up with a letter stressing the need to focus on the situation in Afghanistan, where al Qaeda was based.

Mr. Manning said Mr. Blair had initially said Britain could support the U.S. in military action against Iraq only through the United Nations, though he later did accept that military action may be possible during a meeting with Bush in April 2002.

Poland's GDP rises amid strong exports

By Malgorzata Halaba And Marcin Sobczyk

WARSAW—Poland, which appears to have skirted the global downturn, posted faster expansion in the third quarter, helped by strong exports and private consumption.

Poland's third-quarter gross domestic product rose 1.7% from the year-earlier period, and followed a 1.1% rate in the second quarter, according to a preliminary estimate by the Central Statistical Office.

The data, which were better than expected, topped figures from the Czech Republic, where the economy contracted 4.1% in the third quarter, and Hungary, where it shrank 7.2%.

Czech industrial-output data showed continued contraction at the start of the current quarter. Industrial production fell 7.3% in October, after an 11.9% decline in September, preliminary figures from the Czech statistics office showed.

Jan Czekaj, a member of the National Bank of Poland's Monetary Policy Council, said on business-news channel TVN CNBC Monday that "initial figures show the [fourth-quarter] growth rate will be similar to that of the third quarter, so probably 1.5%-2%."

The Polish Economy Ministry sounded a more-optimistic note, saying the GDP will likely grow 2.5% from a year earlier in the fourth quarter and 1.5% for all of 2009.

As in previous quarters, net exports remained the key driving force behind the GDP growth, contributing three percentage points to the growth rate.

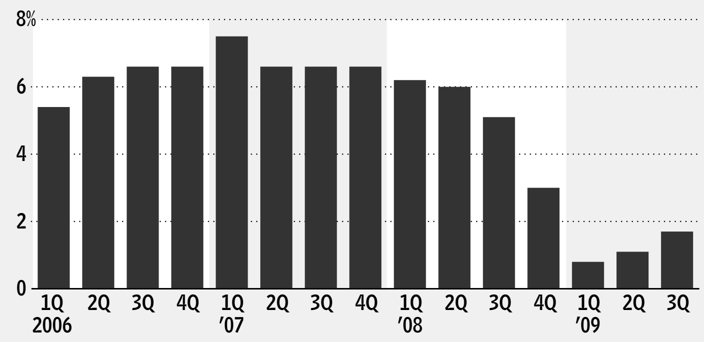
But Mr. Czekaj turned cautious when looking further into the future, referring to Poland's reliance on a global economic rebound.

"The economy is accelerating and it's positive, but we should also keep in mind where this growth comes from," he said.

Poland's private consumption rose 2.2% in the third quarter, an improvement from the previous quarter. But that may prove to be a one-time advance related to the zloty's weakness in the first half of the year, which prompted Poles to spend holidays in Poland rather than abroad, boosting consumption.

Skipping the downturn

Poland's economic growth has accelerated since the first quarter.
Poland's gross domestic product, change from the previous year



Source: Central Statistical Office

EUROPE NEWS

Demjanjuk trial begins in Germany

A WSJ News Roundup

MUNICH—A German court put John Demjanjuk on trial Monday on charges of being an accessory to the murder of 27,900 Jews at a Nazi death camp; his lawyer immediately accused the court of bias.

The 89-year-old retired Ohio auto worker arrived at the opening of the trial in a wheelchair to face the final chapter of some 30 years of efforts to prosecute him.

Mr. Demjanjuk's attorney opened the proceedings by filing a motion against the judge and prosecutors, accusing them of treating his Ukrainian-born client more harshly than Germans who ran the Nazis' Sobibor death camp in occupied Poland. Ulrich Busch, the lawyer, cited cases in which Germans assigned to Sobibor, where prosecutors allege Mr. Demjanjuk served as a guard, were acquitted.

"How can you say that those who gave the orders were innocent...and the one who received the orders is guilty?" Mr. Busch asked the court.

Mr. Demjanjuk was deported in May from the U.S. to Germany. He could face up to 15 years in prison if convicted. A doctor who examined Mr. Demjanjuk before the trial began said his vital signs were stable. His family says he is terminally ill.

The case calls up comparisons to former Nazi Erich Priebke's case, in which an Italian court was accused of allowing the defendant's age—Mr. Priebke was 83 at his first conviction—color its sentencing.

Mr. Priebke was convicted in 1996 by a military court in Italy of taking part in the massacre of 335 civilians in the Ardeatine Caves near Rome in March 1944. He was later released on a technicality, sparking a public uproar which led to his re-arrest. He is currently serving a life sentence under house arrest.

Mr. Demjanjuk, a former Red Army soldier, is accused of volunteering to serve as a guard under the SS after being taken prisoner by the Nazis in 1942. The prosecution argues that just being a guard at a death camp means he was involved in the Nazi machinery of destruction. However, the prosecution must prove he served at the camp.

Associated Press; Getty Images

Robert Cohen, left, a plaintiff in the Demjanjuk trial, shows his tattoo from the Auschwitz-Birkenau concentration camp. John Demjanjuk, in wheelchair, arrives in court Monday.

DUBAI DEBT CRISIS

Loan woes are ruler's latest troubles

Sheik Mohammed's 'full throttle' approach led state-owned conglomerates to compete for projects and global capital

By Chip Cummins
And Andrew Critchlow

DUBAI—This city-state's announcement last week that it would seek to delay debt payments represents the latest in a string of troubles for its ruler, Sheik Mohammed bin Rashid Al Maktoum, and a coterie of economic advisers struggling with the fallout of the global economic crisis.

Over the last several decades, Dubai's debt piled up as government-related companies borrowed to fund development at home and acquisitions abroad, to extend the emirate's wealth and international reach. After Sheik Mohammed took over as crown prince in 1995, he assumed effective control of the emirate's economic development.

On his Web site, he describes his business approach as hands-on and ambitious, adding, "I take decisions and I move fast. Full throttle."

He organized the economy around state-owned conglomerates, picking loyal deputies to head each one. They competed against each other for projects and capital, tapping local and global banks that were eager to lend amid an oil-fired regional boom.

Ports and real-estate conglomerate Dubai World, led by Sultan Ahmad bin Sulayem, the son of a close adviser to Sheik Mohammed's father, built a palm-tree-shaped island dotted with luxury hotels and villas. Developer Emaar Properties PJSC built the world's tallest skyscraper.

Bankers and credit analysts assumed there would be government support from Sheik Mohammed—and from the United Arab Emirates' federal government in Abu Dhabi—if they ever overextended.

But when the global financial crisis hit last year, foreign investors fled Dubai's property market, a pillar of the economy. Unease over Dubai's debt turned into global concern, and the cost of insuring Dubai debt against default started to rise sharply. Dubai said it would throttle back development and announced that one of its sovereign funds would start buying domestic real estate, an attempt to prop up the market. Debt wasn't a worry, officials said.

Associated Press

Sheik Mohammed bin Rashid Al Maktoum, front right on Nov. 15, has picked—and dumped—financial and economic advisers as Dubai World's troubles grew.

Developers, many of them state-owned, saw their cash flow disappear. Buyers, who could put as little as 10% down, stopped paying installments. Builders started complaining about missed invoices.

Sheik Mohammed turned to a new finance chief and in February, Dubai orchestrated a novel $20 billion bond program, of which the first $10 billion tranche was fully subscribed by the U.A.E. central bank. Dubai said it would use the money to meet its own debt obligations and unpaid bills by developers.

The U.A.E. offered more, but Dubai turned down the offer, according to one person familiar with the situation.

Just as investors started to breathe easier due to the big show of federal support, Sheik Mohammed dumped his new finance chief, with no explanation. Still, Dubai made its debt payments on time. In June, Dubai World, the biggest of Dubai's corporate entities, brought in restructuring outfit Alix Partners Ltd. to advise on an overhaul.

In mid-October, Dubai World said it would shed thousands of jobs and launch a major cost-cutting effort. Selling assets quickly wasn't a real option. Many of the company's businesses were still valuable but illiquid, according to a person familiar with the situation. The company wanted to avoid a fire sale, this person said.

Amid the restructuring effort, Mr. Sulayem, the chairman, was aloof, according to this person. His deputy, Jamal bin Thaniah, appointed chief executive in October, took on a more active role, this person said. Mr. Sulayem hasn't responded to requests for comment. A spokesman for Dubai World said he wasn't available.

A $3.5 billion sukuk, or Islamic bond, was coming due in December. While Dubai World signaled in the spring that a debt restructuring was an option, investors and analysts continued to expect a bailout.

In a letter to employees of Dubai World prior to last week's announcement on debt-delays, Mr. Sulayem said the Dubai government had assured the company "full support as an iconic company serving its role in the government's vision for the future." A spokesman declined to comment except to say the company will continue to communicate with staff about the restructuring, which "has been under way for some time and it continues."

Earlier in November, Dubai's top officials gathered for a meeting of Sheik Mohammed's royal court, according to a person familiar with the situation. At Zabeel Palace, surrounded by manicured gardens, statues of prancing horses, and flittering peacocks, Sheik Mohammed was briefed on the extent of Dubai World's troubles, this person said.

In the days that followed, Sheik Mohammed announced the removal of several top economic advisers from key positions, including Mr. Sulayem. Then, last Wednesday, Dubai said it had raised $5 billion in debt commitments from two Abu Dhabi-controlled banks.

Investors interpreted the move as another indication that the federal government would come to Dubai's rescue if needed. Two hours later, Dubai came out with its standstill announcement.

The sketchy nature of the announcement—a five-paragraph statement with few details—compounded the market mayhem. A spokesman for the department said he couldn't comment beyond the statement, and a spokesman for Sheik Mohammed's court didn't respond to a request for comment.

Late Thursday night, Sheik Ahmed bin Saeed Al Maktoum, a senior Dubai finance official and the chairman of the Emirates airline, issued a statement saying that the standstill announcement had been carefully planned and promised more details this week. "This is a sensible business decision," he said.

—Margaret Coker and Sara Schaefer Muñoz contributed to this article.

Dubai and Abu Dhabi markets sink as worries escalate

Continued from first page

cal banks, many of which were some of Dubai World's biggest lenders.

There was some good news for Dubai investors. Dubai World unit Jebel Ali Free Zone Authority, or Jafza, made a coupon payment due Monday on a 7.5 billion U.A.E dirham ($2.04 billion) Islamic bond, or *sukuk*, according to a bondholder. The sukuk's payment was estimated to be between 125 million dirham and 135 million dirham, according to analyst calculations.

Separately, Moody's Investors Service Inc. said the planned restructuring of Dubai World, a state-owned conglomerate, is unlikely to threaten the credit quality of the government of Abu Dhabi and the federal government of the U.A.E.

"Overall macroeconomic stability is protected by the country's strong net external creditor position that is bolstered by Abu Dhabi's accumulated oil wealth," said Tristan Cooper, head analyst for Middle East sovereigns at Moody's in Dubai.

Moody's rates both the U.A.E. and Abu Dhabi at Aa2, with a stable outlook. Dubai and Abu Dhabi are two of the seven emirates that make up the U.A.E. Dubai doesn't have a rating.

In the stock market, most U.A.E. shares closed near the bottom of their daily trading limits, which is 10% for liquid stocks. Dubai limits falls of less-frequently traded shares to 5% in one session. Bellwether **Emaar Properties** PJSC fell 9.9% and **Emirates NBD** dropped 5%, both in Dubai. **Aldar Properties** PJSC shed 10% and **National Bank of Abu Dhabi** lost 9.7%, both in Abu Dhabi.

DP World, majority-owned by Dubai World and listed on Nasdaq Dubai, tumbled 15%. DP World's share price is expected to remain volatile until the situation with regard to Dubai World becomes clearer, analysts at UBS said in a research note.

Late last week, Dubai said it plans to restructure Dubai World, which is struggling with liabilities of about $60 billion, and will seek a debt standstill from creditors. The news sparked fears of a default.

While the news sent global markets tumbling late last week, those in Asia regained ground Monday after the U.A.E.'s central bank said it would support local and international banks with exposure to Dubai debt. European markets weakened, and U.S. markets were ahead slightly.

—Sara Schaefer Munoz in London and Maria Abi Habib, Andrew Critchlow and Oliver Klaus in Dubai

Dubai diary

Worries over debt rattled markets world-wide.

Wednesday

- Dubai announces a six-month standstill on Dubai World's debt.
- Moody's and Standard & Poor's downgrade the debt of some other Dubai government-related entities.

Thursday

- Dubai markets close for four days over the Eid Al Adha holiday.
- Dubai worries contribute to the biggest one-day percentage drop in European markets since April.

Friday

- Stock markets in Europe recover and close higher.

Sunday

- The U.A.E. central bank says it will make fresh funding available to local banks if needed, but doesn't offer specific support to Dubai.

Monday

- A top Dubai government official says it won't guarantee the debts of Dubai World.
- Dubai's main index of stocks closed 7.3% lower; neighbor Abu Dhabi's main index fell 8.3%.

DUBAI DEBT CRISIS

Dubai World Key Assets

Reuters

DP World

Dubai World's crown jewel. In 2007, Dubai World listed part of its ports operation on a new Dubai exchange, raising just under $5 billion in the Middle East's largest IPO. Dubai World has signaled it won't part with its core DP World ports subsidiary, despite interest from a private-equity firm earlier this year. Dubai World has said DP World debt wouldn't be included in any debt standstill.

Agence France-Presse

Barneys

Istithmar World bought Madison Avenue retailer Barneys New York in 2007 for $942 million. The chain is exploring a possible restructuring, with the retailer tapping investment bank Perella Weinberg Partners as an adviser.

Associated Press

MGM Mirage

Dubai World joined forces with MGM Mirage and invested $5 billion in Las Vegas's $8.5 billion casino and development project but the value of its stake has sunk amid a property-market glut.

Reuters

Cirque du Soleil

Nakheel and Istithmar bought a 20% stake in Canada's Cirque du Soleil and the circus troupe is, due to set up a permanent base in the emirate.

Agence France-Presse

Queen Elizabeth II Liner

Nakheel bought the luxury liner for $100 million in 2007 and had planned to convert it into a luxury hotel to be permanently moored off its Palm Jumeirah development. The ship has been largely untouched since then and Nakheel is looking at alternative locations. It says other ports in the Middle East and Africa have expressed an interest in hosting the ship.

Associated Press

Turnberry Golf Course

Dubai World's Leisurecorp bought the Turnberry golf course in Scotland from Starwood Hotels & Resorts for about $100 million in 2008.

Sources: Zawya.com; WSJ research

Dubai World may have to sell trophies

Some high-profile properties are worth a fraction of what firm paid; talks on unloading the Queen Elizabeth II liner

By Stefania Bianchi

DUBAI—Nearly six months into its corporate restructuring, **Dubai World**, this city-state's flagship conglomerate, has mostly resisted selling off its trophy case of assets, from ports around the world to luxury hotels and a vintage cruise liner.

After last week's announcement from Dubai that it is requesting a delay in debt payments of state-owned Dubai World, the company may have less room to avoid sales.

In recent years, Dubai World diversified well beyond its roots in port operations. Many of those investments—in international property, entertainment and tourism—are now worth a fraction of what Dubai World paid at the height of an oil-fired regional boom. And a hasty, distressed sale of assets could make it more difficult to wring the most value out of its portfolio.

"It won't want to give an impression that there's a fire sale," said Fahd Iqbal, Persian Gulf strategist for Egyptian investment bank EFG-Hermes.

A spokesman for Dubai World declined to comment. A person familiar with the situation said that it's "too early to say" what Dubai World's view on asset sales would be. "But if someone came along with a fair value offer, this would be considered at the right price," this person said.

The company owns a number of solid businesses, including cash-generating port operations. Dubai World has signaled it won't part with its core DP World ports subsidiary.

Among some assets in the Dubai World portfolio that might be easier to offload are trophy properties or businesses with cachet, which might prove attractive, especially at today's lower prices. Dubai World owns sought-after addresses like the Metropole building and 10 Whitehall Place in London.

Discounting would still likely be heavy. In November, Dubai World sold two properties on London's Regent Street and one property on Oxford Street to London property investors Great Portland Estates. It got just £10 million ($16.5 million) after paying about £80 million for the buildings two years earlier. Hotels could be even more trouble.

The company owns Nakheel Hotels, a chain of luxury lodgings that includes the new W Hotel in Washington, D.C., and the Turnberry golf resort in the west of Scotland. It also owns Chris Evert tennis centers and more than 200 golf courses across the U.S.

Dubai's biggest bet on property overseas was its 2007 decision to join forces with **MGM Mirage** in an $8.5 billion Las Vegas development. Dubai World has invested some $5 billion in the project, but has seen the value of its stake sink.

Dubai bought the Queen Elizabeth II luxury liner for $100 million in 2007. The company is in fresh talks to sell the vessel to Abu Dhabi investors, after talks with an initial partner failed earlier in the year, according to a person familiar with the situation.

—William Boston and Peter Grant in New York and Andrew Critchlow and Alex Delmar-Morgan in Dubai contributed to this article.

Abu Dhabi becomes a deal-making powerhouse

By Margaret Coker

ABU DHABI—Amid debt-laden Dubai's yearlong retrenchment from global acquisitions, this neighboring emirate has stepped into the breach.

Late Sunday, the federal government of the United Arab Emirates, based here, said it will boost liquidity in local banks following Dubai's surprise announcement last week that it will ask borrowers to delay debt payments. Three days of global-market mayhem following the announcement has raised expectations that Abu Dhabi—which bailed Dubai out earlier this year, acting in its federal capacity—will come to the rescue again.

Officials from both emirates have long denied any competition between the two. But in recent months, as Dubai's star on the global-deals stage faded amid a property-market crash and a popping debt bubble, Abu Dhabi's has brightened.

Recently, it has accelerated its buying in a strategy unique among the world's handful of so-called sovereign-wealth funds. Government-linked entities have invested billions in blue-chip companies the world over, setting up related joint ventures and seeking out management roles with the aim of luring industries such as chemicals, semiconductors and aviation to its quickly growing city-state in the desert.

Abu Dhabi companies working under the watchful eye of the ruling Al Nayan family completed deals worth some $18 billion in the first half of 2009, according to Monitor Group, a London-based consultancy that tracks sovereign-wealth-fund activity. That accounts for more than half of all such activity for that period, Monitor Group says.

Over the past two years, Abu Dhabi has made some splashy deals. Its largest fund, the Abu Dhabi Investment Authority, poured $7.5 billion into **Citigroup** Inc. in November 2007. Even when that gamble went sour, the oil-rich city-state went with another financial-sector deal. In late 2008, Sheikh Mansour bin Zayed al Nayan, a royal family member and the head of one of Abu Dhabi's biggest state-controlled funds, leapt to the rescue of **Barclays** PLC, helping it raise approximately $8 billion in capital. He then sold a big chunk of those shares this year, almost doubling his money.

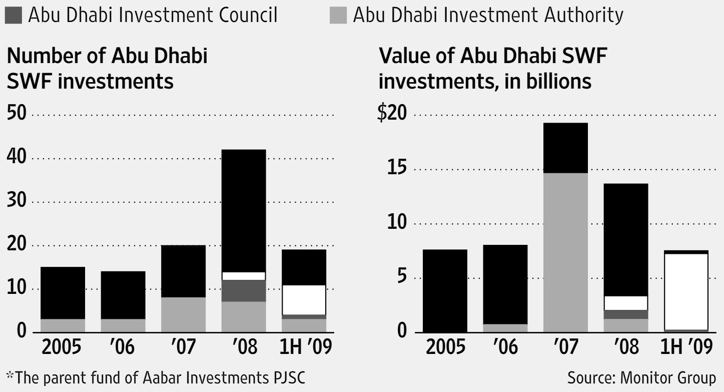
On top of these passive investments, Abu Dhabi has targeted cheap industrial assets or strategic tie-ups that officials plan to use to diversify their country's economy away from energy resources. The deals this year include the signing of an $8 billion joint venture with **General Electric** Co., a $1.8 billion purchase of Singapore's **Chartered Semiconductor Manufacturing** Ltd. and a 9.1% stake in **Daimler** AG, bought for $2.7 billion.

"We're expanding into all different kinds of things," says Waleed al Muhairi, director general of the Abu Dhabi Council for Economic Development, run by leading government and private-sector officials.

Mr. Muhairi is the chief operating officer of Mubadala Development Co. and chairman of Advanced Technology Investment Corp., or Atic, which entered a joint venture with U.S.-based Advanced Micro Devices Inc. to manufacture semiconductors.

Unusual strategy

Funds linked to the Abu Dhabi government have invested billions in blue-chip companies, setting up related joint ventures and seeking out management roles.



*The parent fund of Aabar Investments PJSC

Source: Monitor Group

Associated Press

U.S. soldiers in Afghanistan's Wardak province on Monday await the arrival of a team of army engineers that will place a temporary bridge after insurgents detonated a large explosive device under the existing bridge.

Afghans slam U.S. surge

Some officials in Kabul and tribal areas say not to send more troops

By Anand Gopal

KABUL—Doubts are rising among Afghan politicians that more U.S. troops can turn the tide of the war, as U.S. President Barack Obama prepares to unveil a new Afghanistan strategy that is expected to include an injection of roughly 30,000 reinforcements.

"We should focus on building the Afghan security forces, not sending more troops," said Sebgatullah Sanjar, the chief policy adviser for Afghan President Hamid Karzai.

Mr. Obama is expected to outline his plan to alter the course here on Tuesday, in an address at the U.S. Military Academy at West Point. Afghanistan has been beset by a resilient insurgency and poor governance, and while the U.S. strategy is expected to focus on more than just the military dimension, the troop increase is likely to be a central component.

By sending more troops, the allies hope to push the Taliban back from areas where it has been operating freely for years and impede the insurgent's ability to operate. This would create the space needed to bring development and begin to win over a war-weary population that is suspicious of the U.S.

A minority in the government, such as the interior minister and certain leading officials in the Afghan security forces, has spoken publicly in favor of the increase. Moreover, many from the peaceful non-Pashtun areas welcome the troop increase as a way to keep insurgents at bay.

U.S. authorities contend that Afghan government officials who disapprove of the troop increase are apportioning blame to deflect attention from their own shortcomings. "It's poor governance more than anything else that has put us in this situation," said a Kabul-based U.S. official.

U.S. authorities also said they are working to minimize civilian casualties and that in order to bring the political and economic improvements that Afghans desire, a military thrust to push back the Taliban is necessary.

The U.S. needs the support of the Pashtun population and reluctant tribal leaders in order to succeed.

Moreover, they say that the alternative espoused by opponents to the troop increase—concentration on the development of the Afghan forces—is premature. "It could take some years before the Afghan security forces are able to stand on their own," said Capt. Bill Spurlock, who is involved in overseeing the training of Afghan army recruits.

Mr. Obama is expected to talk about Afghan troops in his speech Tuesday, but not specify a target for expanding ther ranks.

The Afghan army has made many strides, but is still plagued by lack of experience and illiteracy. The Afghan police force is even less capable and is widely accused of corruption and inefficiency. On Sunday, a police officer opened fire on his comrades, killing six and wounding two. The incident comes less than a month after a police officer killed five British soldiers in a similar attack.

A troop increase could provide the space and support needed for the Afghan forces to develop, U.S. officials said. U.S. funding and support will be needed for an Afghan troop expansion, and officials in Washington said an increase in the size of the Afghan forces is unlikely until the Afghan government and the security sector show improvements.

Several senior Afghan officials said the U.S. should deploy troops only to the porous border with Pakistan and not the country's interior. Mr. Karzai has said publicly that he welcomes more troops, but close aides said he hoped the troops would go to the border.

Many tribal heads and local leaders from the Pashtun south and east—the heartland of the Taliban insurgency—have gone further, calling for troop withdrawals.

"I don't think we will be able to solve our problems with military force," said Muhammad Qasim, a tribal elder from the southern province of Kandahar. "We can solve them by providing jobs and development and by using local leaders to negotiate with the Taliban."

Such views could pose a challenge to the U.S., which would require the support of the Pashtun population in order to succeed. "People are starting to view the Americans as occupiers, and in that context more troops would be risky," said Hanif Shah Hosseini, a lawmaker from Khost province.

Officials cite night raids, civilian casualties and lack of development as reasons why the standing of U.S. troops has lowered in some Afghans' eyes. When the U.S. forces enter an area, the levels of violence generally increase, causing anger and dissatisfaction amongst the local population. Some officials point to previous troop increases, such as an injection of 21,000 troops in the spring, and say they have failed to quell the insurgency.

"If new troops come and are stationed in civilian areas, when they draw Taliban attacks civilians will end up being killed," said Gulbadshah Majidi, a lawmaker and close associate of Mr. Karzai. "This will only increase the distance between Afghans and their government."

In the volatile southern city of Kandahar, where many of the new troops are expected to head, locals said they will be glued to their radio sets on Wednesday morning to hear news of Mr. Obama's new strategy.

"If we get more troops, there will be more bloodshed," said Noor Muhammad, a shopkeeper. "Only Afghans themselves can solve this problem."

—Habib Zahori contributed to this article.

Obama's diplomatic push shows signs of paying off

[Capital Journal]

By Gerald F. Seib

In almost a year in office, President Barack Obama has invested heavily in the Bank of Diplomacy and International Engagement—and waited awkwardly for some return on that investment.

Maybe he is finally starting to get some. The question is whether it is enough.

One sign will come Tuesday night when the president addresses the U.S. on his strategy in Afghanistan. He will disclose how many additional American troops he will send to turn around the trend lines in that troubled land; something in the neighborhood of 30,000 seems likely.

Almost as important, though, will be what the president says about the fruits of his administration's intense diplomatic overtures to get allies to increase their own troop levels.

The rise in troops from other nations in the North Atlantic Treaty Organization likely will be modest. The administration once had hoped it would approach 10,000, which, combined with 30,000 or so American forces being added, would have reached the rough overall increase Gen. Stanley McChrystal, the American commander, had sought. Obama aides say the total additions from NATO nations, as well as from some other countries in the international force in Afghanistan, more likely will be somewhere "north of 5,000."

Still, Pentagon officials said over the weekend they are satisfied, if only because even a modest NATO increase represents a renewed political commitment to the enterprise, and a turnaround of the previous trend line, which showed allies moving out of rather than further into Afghanistan.

The second area where the president may finally be getting some return on investment is climate change. The payoff came in the form of China's weekend announcement that it would set a specific target to limit its emissions of greenhouse gases. In his visit to China last week, Mr. Obama had sought some kind of commitment from the Chinese, who waited until he was gone to provide it.

China's plan is underwhelming; it amounts to a promise to slow the rate of growth of the greenhouse gases the nation emits in coming years rather than a cut in the level of emissions. And the Chinese still say they want the West to help pay for China's moves to cut emissions, which is, to put it mildly, going to be a tough sell. Yet the underwhelming nature of the commitment actually may be a blessing in disguise for Mr. Obama, because it makes the target he set for the U.S.—a 17% cut from 2005 levels by 2020, less than European nations had sought—look fairly ambitious by comparison.

If nothing else, the Chinese commitment to some tangible target probably will allow the international summit on climate change in Copenhagen Dec. 9, which Mr. Obama will attend, to come off without diplomatic calamity.

The third, and most important, test lies in Iran. There, the president's direct diplomatic engagement with Iran itself hasn't done anything to slow Tehran's nuclear program. On the other hand, it may finally be helping create a unified international response to the Iranian threat.

The key moments on the Iranian front also came over the weekend, first when Russia and China joined 23 other nations on the International Atomic Energy Agency's board of governors to censure Iran for failing to heed international demands to open up its nuclear program.

A censure from a United Nations agency such as the IAEA is usually worth roughly the paper it is written on. In this case, though, the censure was a necessary precursor to the move that really matters: a vote at the U.N. Security Council to impose new economic sanctions on Iran. The Chinese and Russian assent to the IAEA rebuke doesn't guarantee that they will support stiff new sanctions, but it is an important leading indicator.

One area where Mr. Obama may finally be getting some return on investment is climate change.

Iran then responded with the equivalent of a diplomatic temper tantrum, which actually may help to make Mr. Obama's case for sanctions. Iran announced on Sunday that it plans to build 10 more uranium-enrichment facilities and may pull out entirely of the Nuclear Non-Proliferation Treaty, the holy grail for the IAEA.

It is hard to imagine a reaction that would make it more likely that Russia and China will go along with sanctions. Mr. Obama has been personally pressing Chinese and Russian leaders hard on that matter, and the real results won't be known unless and until the Security Council gets down to sanctions business, likely early next year.

It is important to remember that U.S. officials view whatever the Security Council does on sanctions as a starting point, not the finish line. A Security Council resolution would represent a kind of international seal of approval that Washington could use to work with other industrialized nations to go further in cutting off Iran's financial system, the approach with the best chances of really pinching Tehran's leaders.

In general, of course, Afghanistan will remain largely America's problem; developing countries are unlikely to do anything on climate change they consider fundamentally counter to their own interests; and allies are more prone to complain about a lack of consultation than to actually respond to consultation. Iran, though, is a genuine international challenge—and the true, continuing test of diplomacy.